

A Critical Examination of the Basis
of Government Grants to Local
Authorities in Scotland.

A THESIS

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PART I

1. - INTRODUCTION

I.

In Scotland, the four counties of cities, 33 counties and 194 large and small burghs, which are the main administrative units of local government, are at present involved in current expenditures of the following order: ⁽¹⁾

Service	£millions (gross)	%
Education	69.7	34
Police	10.1	5
Fire	2.2	1
Local Health	6.0	3
Welfare	2.8	1
Children	2.4	1
Housing	36.8	18
Roads	14.6	7
Revenue producing undertakings(except housing)	29.4	14
Other purposes	32.1	16
	206.1	100

These local authorities, while they range in size in terms of population from a few thousand to over a million, all have two essential characteristics, namely that they are independent /

(1) Table based on figures supplied by the Scottish Statistical Office for 1957-58.

independent local organisations of self-government, the members of whose councils are locally appointed by popular election, and secondly that they have the power to finance their activities by levying rates. Each, in its way, is a government within a government, deriving its delegated powers from Parliament.

A scrutiny of the figures in the foregoing table gives rise at once to two related thoughts; firstly, that these are massive and increasing commitments calling for continuous financing, and secondly, that the services listed are important ones in that they cover so many aspects of national life. As to the first thought, if we ignore the by no means unimportant contribution of fees, rents, and other miscellaneous items of income, the local authorities find the money from two sources, that is, from the yield of their rates and from grants from the State.

The second consideration is the services themselves and the principles upon which they operate. These have arisen as the outcome of social policies pursued in many cases for at least a century; they are nowadays broadly classified into three groups: environmental, protective, and personal services. Education, for example, a personal service, is seen to be by far the most expensive, while other services like Police and Roads, though less obtrusive, are in no way less fundamental. Housing, again, has /

LOCAL
GOVERNMENT
SERVICES.

has been a point of heated public discussion for years. In these social services, because of their universal application, the principle of uniformity operates though not simply in the narrow sense that everyone shall enjoy exactly similar services. The possibility of rising standards must also exist, so that while there must be fixed a minimum below which no authority may be permitted to fall, there should be nothing to prevent individual authorities choosing to have services of a higher standard if they so desire.

One important feature of the local authorities' administration of all these varied and complex services is that it comes continually under the limelight of public opinion and criticism. If the public is dissatisfied with the local administration of welfare services, for example, it has the right to say so through its elected members of local councils, so as to exercise public control over public expenditures on public services.

The responsibility for these services, which are nowadays considered essential, has rested on the local authorities - using that term in its widest sense⁽²⁾ - for the last century, and all the time throughout that period new services have been added with each fresh advance in social progress, so that to-day the local authorities have, of /

(2) Until the passing of the Local Government (Scotland) Act 1929 many agencies combined to carry out the functions of the modern local authority. These included parish councils, education boards, county road boards, district boards of control, and town and county councils.

of necessity, become highly organised to deal with the specialised administration of these services. At first this arrangement arose out of expediency. The early local councils and ad hoc authorities were able to raise money by levying a rate and so recover from the individual the cost of services provided, and the arrangement seemed sound administratively since the services were of a local nature for local people - the provision of streets, the clearing of refuse, the maintenance of a police force. The traditional method of raising money by the levy of a local rate based on the "real rent of all local heritable subjects",⁽³⁾ too, seemed the most effective, indeed, the only way available.

But then it was seen that certain of the new services being provided were not entirely local by their nature, but were to a very considerable extent of national importance, so that it became necessary to distinguish between those services in which the local authorities should take a particular interest, such as the provision of parks, and those, like Police, in which the State had a general interest transcending local boundaries. The local population derived benefit from the new police force, it was true, but the preservation of law and order and the protection of public property was undoubtedly a State concern which Adam Smith had/

(3) Report of the Royal Commission on Municipal Reform. 1835.

had classified as one of the "duties of the Sovereign" as far back as 1776.⁽⁴⁾ Furthermore, it was clearly desirable to achieve a uniform standard of service everywhere, so that law and order was no worse preserved in one area as compared to another.

In this way there emerged a kind of uneasy partnership between central and local government in financing the developing services. There is little doubt that a number of problems would have been resolved if from the first the relationship had been one of principal and agent, but this arrangement was never acceptable. For political reasons it had to be a partnership, and what was gained politically was lost in terms of financial administration.

FINANCING
THE
SERVICES.

In Scotland, this partnership is now represented by the Secretary of State for Scotland on the one hand, and by the representative bodies of the local authorities, mainly the Convention of Royal Burghs, the Associations of County Councils and of District Councils and the Counties of Cities Association, on the other. It was a combination in which, from the start, it was extremely difficult, even impossible, to say with any degree of precision the relative interests of the two partners. It was simple and expedient to assume an equal partnership, but this was not necessarily a true assumption, /

(4) Wealth of Nations. Book 5, Chapter I.

assumption, and even the term "partnership" only suggests the nature of the relationship.

What further complicated the matter was the manner in which each of the partners found the money to contribute to the partnership. The State's share was met by transfers of "grant" to the local authorities out of national taxation which was very flexible and reasonably uniform everywhere. In its incidence it was based on "ability to pay", so that its effects fell with some degree of equity on the individual. The local authorities' share, on the other hand, was met from local rates which were, and still are the only tax open to them, and while this may not have been unduly inequitable when local services were few and their cost small, the rapid growth of the services, together with long-term inflation soon brought into sharp perspective all the shortcomings of the rating system.

The fact was that the system was being asked to meet a developing situation for which it was never intended. Turner⁽⁵⁾ points out that about 1850 the whole of the rates levied in Scotland did not much exceed £900000, and goes on to remark that sixty years later the rating system was a "somewhat inadequate expression of our enlarged conceptions of equitable chargeability". There is a note of despair, too, in the Dunedin Committee's⁽⁶⁾ pronouncement ten years later that "Parliament should recognise that" /

(5) History of Local Taxation in Scotland. - S.H.Turner (1908).

(6) Departmental Committee on Local Taxation in Scotland, 1922.
Cmd 1674.

"that the present system of rating is near its breaking point".

By that time the rates in Scotland were bringing in close on £18,000,000. To-day, the yield is in the region of £70,000,000.

Rates were narrowly based and regressive where national taxation was progressive; they fell on the ownership and occupation of property, which was not necessarily a proper index of an individual's capacity to contribute to the common pool. In Scotland, too, the rating system was applied somewhat differently to that found in England, so that comparisons were difficult, and indeed, rateable values varied widely even between parishes in the same Scottish county.

As services grew and the expenditure on them mounted these flaws in the rating system became increasingly obvious and the central/local relationship had to be adjusted periodically. Efforts at adjustment were necessarily piecemeal, often quite unsystematic and sometimes so tortuously contrived as to be almost unworkable, but these efforts have resolved themselves over the years into the existing system of grants in this country.

Under this system there were until May 1959 not far short of a hundred different grants to local authorities in Scotland, each with its separate regulations. Some of these grants have now been grouped together⁽⁷⁾ and others discontinued⁽⁸⁾ but in general they fall into two main classes with subdivisions of each class as follows:

I./

(7) See Appendix B.

(8) See Appendix C.

I. Specific contributions.

- (a) Percentage grants.
- (b) Unit grants.

THE
GENERAL
SYSTEM.

II. General Contributions.

- (a) Block grants of fixed or semi-fixed nature.
- (b) Equalisation payments.

In addition, there are two other forms which grant payments could take, though these forms are not now in use in this country. These are, first, the assigning of certain earmarked State taxes to the particular purposes of the local authorities, and secondly, the practice of allowing the local authorities to make surcharges on some selected State tax up to a fixed percentage. Both these methods are commonly found abroad.

(9)
Chester has further classified grants according to their characteristics in the following way -

- (1) Conditional and unconditional grants.
- (2) Specific grants.
- (3) Fixed grants
- (4) Means and uniform grants.
- (5) Grants in money or in kind.

All grants have a number of characteristics, so that under the latter classification the Exchequer Equalisation Contribution, for example, would be general, conditional, variable, means and money. There are, however, other attributes of each type of grant which are not so conveniently labelled, so that Chester's classification for our purpose is incomplete and the former one will be preferred throughout the discussion.

The types of grant referred to will be described and discussed /

discussed in detail in later chapters. For the present it is enough to recognise the existence of the two main classes, which although quite distinct will be seen to have a natural connection with each other. Their chief function, though not, as we shall see, their only one, is to promote the development and maintenance of the services earlier referred to at certain minimum standards of efficiency.

II

Where, then, is the point of balance between rates and grant? In 1957, the Minister of Housing and Local Government pointed out that the ratio between Exchequer grants to local authorities and their revenue from local rates, which thirty years ago was 1 to 2, had now become 6 to 5.⁽¹⁰⁾ Over a shorter term this trend can be seen from the following table, where other sources of local income are also brought to account.⁽¹¹⁾

United Kingdom	1938	1946	1949	1950	1951	1952	1953	1954	1955	1956	1957
	%	%	%	%	%	%	%	%	%	%	%
Rates	44.0	43.5	43.9	43.4	42.6	41.8	41.8	41.3	39.4	40.7	40.0
Grant	28.0	39.0	38.5	38.1	39.0	39.5	38.2	38.0	38.4	38.1	38.8
Other income	28.0	17.5	17.6	18.5	18.4	18.7	20.0	20.7	22.2	21.2	21.2

Such /

(10) Hansard 12/2/57. p. 1081.

(11) Annual Abstract of Statistics, 1958.

Such a clear shift in emphasis over a comparatively short period of time is a direct reflection of the changing central/local relationship. This tendency for the State to assume an ever-increasing financial responsibility for local services is an unfortunate one, for it makes the State more than ever the partner with the controlling interest and indicates a progressive decline in the independence of local government units. Everything seems to conspire to encourage the process, for with rising costs and rising rates the local authorities are inclined to depend more and more on State transfers of revenue, and so give the impression, if we may borrow the phrase, of containing within themselves the seeds of their own destruction. Nor is the tendency confined to Great Britain alone; it is to be found to a greater or less degree in most other countries, as was evidenced by the proceedings of the International Union of Local Authorities in 1955.⁽¹²⁾

In view of this the thought suggests itself that instead of arranging matters so that State and semi-State services are administered locally by the local authorities, it might be more efficient finance to relieve the local authorities of this work and make it a State responsibility administered by government officials. In this way it would no longer be necessary to attempt to measure the financial relationship between central and local government for finance would be provided out of national taxes. The complicate and financially clumsy grant arrangement /

THE
DEMOCRACY
OF LOCAL
GOVERNMENT.

(12) New Sources of Local Revenue R.I.P.A. research Study, p.61
(1956).

arrangement would cease and the local authorities would be left to administer the few minor optional services of a purely local nature which remained; the provision of wash-houses, for example, levying their local rates to meet the cost.

The structure of local government is indeed being reviewed at the present time, and two matters of cardinal importance have been raised by this review. Is local government useful? If so, then is it useful in its present form? These are fundamental questions which will be further discussed in a later chapter while the existence of the problem is merely raised at this point. In a White paper presented to Parliament on 31st July, 1956 by the Minister of Housing and Local Government, the government's views on these questions were summarised as follows:

"The test of any system of local government in this country must be whether it provides a stable structure, capable of discharging efficiently the functions entrusted to it, while at the same time maintaining its local democratic character.

A fundamental alteration of the existing structure could be justified only if it had shown itself to be incapable of meeting present day needs. That is not the situation. The present system has, over many years, stood up to the severest tests. It responded well to the abnormal demands made on it during the war and, despite certain weaknesses, has on the whole shown itself capable of adaptation to changing conditions. Moreover it is firmly established and"/

"and the local loyalties and civic pride which have grown up around it are a source of strength to local government which should not be underestimated.

There is, therefore, no convincing case for radically reshaping the existing form of local government in England and Wales. What is needed is to overhaul it and make such improvements as are necessary to bring it up to date"⁽¹³⁾. What has been said of England and Wales in this respect might equally be said of Scotland.

Public administration is rarely ready made to fit the function being administered; more usually it grows up with the function, often piecemeal, and is tailored periodically to fit the changing pattern of design. A century ago, when State services began to develop, their administration was put in the hands of the local authorities and local boards set up for the purpose as a matter of expediency; it was the simplest solution. The local councils were on the spot, they had some form of organised administrative machinery, however defective at the time, and they had the power to raise money locally by levying rates. It seemed most appropriate that the State should develop services which in any case were of a partly local nature through this existing machinery.

Since then, there have been adjustments and redistributions of the burden of services between central and local government, and a number of services have been taken over by the State in the manner proposed. Such functions include, for example, the hospital service, the /

(13) Areas and Status of Local Authorities in England and Wales - Cmd. 9831.

the gas and electricity industries and the main part of the poor law service. There is no reason to suppose, either, that further such adjustments will not be made in the future, say by the transfer to the State of the responsibility for highways.

The question of which services of a national character are suitable for local administration is one on which Parliament has always had to feel its way. The doctrine of general and particular interest, too, which no doubt seemed quite clear a century ago, has undergone modification over the years. A century ago, there was the greatest reluctance to permit any local rate at all to be levied for education; there was thought to be a risk that its distribution would give rise to inter-denominational animosities, while it is altogether likely that even such a basic service as the relief of the poor would have been frowned upon by the earlier economists like Ricardo or Malthus. The point at which a service should cease to be local and become national, however, is a matter involving wider issues than we are here concerned with. Apart from such considerations the services entrusted to the local authorities over the years remain, and with them the artificial financial relationship with the central government.

Expediency and the chance of history, are not the only reasons for matters remaining on this footing. Even if it were considered practicable now to dispense with the experience and established administration of the local authorities on the grounds of efficiency it is doubtful whether such a step would ever be taken, for there are strong political arguments against it. A powerful central government where all authority is concentrated is alien to our conception of what is /

is right. There is an abhorrence of the totalitarian and we see a virtue in the independence of individuals, and therefore of local groups of individuals. Civics are taught in the schools, and the man-in-the-street is encouraged to take an active interest in the work of government. This is democracy. This is our way of life, and it is unlikely to change.

As a basic premise, therefore, this thesis will assume that the State will continue to cherish the local authorities and to be extremely wary about adopting any measure which would limit local initiative and independence. The semi-State services will continue to be the responsibility of the authorities on the spot, and the financial relationship between these authorities and the central government will remain as a sensitive, delicately adjusted and ever-changing factor.

III

One consideration - population - will recur perhaps more than any other in a discussion of the central/local equation.

This factor is so important as to be fundamental to the problem for it is with people that we are dealing - those of whom the services are provided and who pay for them. UNIFORMITY
BETWEEN
AUTHORITIES.

Populations are never evenly spread; in a comparison of two similar localities, one may be found to be densely populated, with a high volume of rateable value but a low rateable value per head of population; the other may be less densely populated. The rate /

rate charge per head of population for equivalent services will obviously fall more heavily on the second area. On the other hand, in two burghs of similar size, one may be industrial the other residential with a relatively higher rateable value per head of population. Existing local government areas which are artificial, do not necessarily fit into the modern pattern of industrial development, which has left big aggregations of population in some areas, while others remain sparse.

Some localities, too, may have a declining population, due perhaps to a preponderance of women in local employment, so that local expenditure per head of population will rise because of fixed expenses which the local authority must continue to pay whatever the size of its population. There may be shifts of population, often unpredictably, from one area to another.

Some areas are poor, others rich. Scotland, for example, has a persistently higher level of unemployment than England. (14) Poverty and unemployment, due to adverse local economic conditions, will force populations to drift elsewhere where conditions are better, while planned migration and the overspill of population to new towns as part of government policy is the cause of further shifts, with resultant effects on local costs per head of population. High levels of taxation may prove such a disincentive that emigration from the country follows; in the same way, with the growth of rapid communications a man may work in a highly-rated community but live in another, where the /

(14) Report of the Royal Commission on Scottish Affairs. Cmd.9212.
p.19.

the local tax is lower.

In more general terms, it may be said that the character of the population as a whole is changing gradually to reflect a proportional over-all ageing, and this thought will underlie all our formulations of social policy in time to come.

Such nomad movements and tendencies to change which defy classification in the variety of their combinations, must have their effect on the financing of local services and serve to hamper the search for uniformity, for if uniform basic standards in the services are to be provided everywhere it follows that some authorities will be better able to afford them than others. Somehow, for these purposes, all authorities must be placed on an equal footing.

One further question of difficulty must be raised at the outset. Scotland, by reason of her historical development, has many points of variance with England and Wales, and although the tendency since 1707 has been for closer and closer ties to be established between the two countries the central/local relationship has always been complicated by these differences.

(15)
 "Very probably", wrote Turner, "had Scotland stood UNIFORMITY
 alone and uninfluenced by English schemes the development BETWEEN
COUNTRIES
 of her system of grants would have been quite different, but of course it is impossible for Scotland to subscribe to national funds to be given in relief of English ratepayers without obtaining an equivalent for itself".

Should /

Should Scotland "stand alone" for these purposes? The question is in part a political one, but it is one which can only be answered in the light of cold reason and by reference to things as they are. By the Act of Union this country, while her laws are preserved, has no real separate identity in matters of financial administration. Time and again "equivalents" have had to be devised to adapt financial arrangements, primarily designed to meet English administrative requirements, for Scottish purposes. There are limits, too, to which administrative devolution can go. Public expenditure involves a great deal more than just the local government services and it would scarcely be practicable to deal with Scotland separately for grant purposes and not for others. It will be recalled, moreover, that the Catto Committee⁽¹⁶⁾ in 1952 found it impossible even to make any separate financial analysis of the two countries, which "are component parts of one unified economic system".

Scotland, with its different rating system, conceived until recently on an owner-occupier basis, and indeed with its different outlook on many matters, yet forms part of the United Kingdom and is subject to the central/local relationship as much as Devon and Yorkshire are. But how to compare these different parts of the country so that a man in Plymouth is asked to pay exactly the same as a man in Peterhead for the same standard of local services is a problem that has up till now proved impossible to solve with any degree of accuracy owing to differing conditions and differing levels of rateable /

(16) Committee on Scottish Financial and Trade Statistics.
1952. Cmd. 8609.

rateable values in the two places.

Yet, because of deep-rooted feelings of nationalism, it is important to all concerned to ensure that there can be no suggestion of unfair treatment of this particular part of the United Kingdom where the distribution of grant is involved.

With the changes in valuation procedure to be brought about by the Valuation and Rating (Scotland) Act of 1956 these difficulties will no doubt be overcome to some extent, but the ideal of complete and absolute uniformity throughout the United Kingdom will still remain as a will o' the wisp to be chased by complex formulae.

A preliminary review of all these considerations serves to introduce the problem of the grant system and the many complexities with which it is surrounded. Consider for a moment some of the alternatives which, in theory at anyrate, are available to a government minded to reform. They could:

- (a) continue the present system of allowing the local authorities to administer local services, financing them out of rates and grant.
- (b) Although allowing the local authorities to administer the local services, abolish the rating system and replace it by a local income tax.
- (c) Retain the rating system, but shore it up with a number of lesser local taxes.
- (d) /

THE LOCAL
GOVERNMENT
PROBLEM.

- (d) "Nationalise" the services, and pay for them out of national taxation by 100% grants, yet still retaining the established administration of the local authorities.
- (e) Nationalise them like the hospital service, and put their administration in the hands of a government department, so that the local authorities would have no further interest in them, and they would be financed out of State taxation.
- (f) Concentrate on improving the grant system so as to make the charge on the individual for local services more uniformly equitable.
- (g) Isolate Scotland for these purposes and try to deal with her separately.

Each of these alternatives could be defended. Which one will best meet the requirements of the country during the next half century? Or is there perhaps another solution which has so far passed unnoticed?

Without doubt, financial administration is the most persistent problem of local government, and in spite of repeated attempts to find a permanent solution to it over the past hundred years it still remains. Above all it is a problem which, because of its many aspects, is extremely difficult to isolate and study. It may be that the best that can ever be done is to come to a compromise; since Goschen's days the search for something subtler has been pursued by /

by successive generations.

"To use local government - really independent local government - as a vehicle for the execution of a social policy that is national in scope, is an extraordinarily difficult thing to do; but it can be done, and it is certainly well worth doing⁽¹⁷⁾".

(17) The Problem of Valuation for Rating - J.R. Hicks, U.K. Hicks, and C.E.V.Leser.(1944). p.10.

2. - THE EVOLUTION OF THE GRANT SYSTEM.

I.

If we survey the Scottish scene a hundred and thirty years ago in the first part of the 19th century, we find a social life vastly different to that with which we are now familiar, a society with which we are already far out of touch. Looking back, we ask ourselves in astonishment: were these our forbears?

THE
BEGINNINGS
OF MODERN
LOCAL
GOVERNMENT

The new industrialisation of the country was by then well under way and great and dynamic migrations were taking place from the country and from Ireland and the Highlands to the cities and the towns. The population of Scotland, which in 1811 was almost equally divided between rural and urban areas, had shifted by the census of 1881 so that 72.77% were town-dwellers; Coatbridge, for example, which in 1831 was a mere village of 741 was to acquire a population of 17,500 in the course of the next fifty years. These towns, unable to expand at a rate sufficient to cope with the new influxes, rapidly became overcrowded.

Planning was unknown and building standards were hopelessly inadequate, with often from fifteen to twenty persons sharing a single room. Public sanitation was worse, with open sewers a commonplace so that periodic outbreaks of typhus, cholera and plague took an appalling toll of the inhabitants, unprotected as they were by any organised system of public health. Dirt was a daily commodity and smallpox was "the poor man's friend".

Poverty, /

Poverty, till now relieved by the churches, mainly from the proceeds of voluntary contributions, became a mass problem for the authorities on the spot; the local councils. The condition of the streets and roads, too, kept up as the latter most commonly were from the proceeds of the turnpike tolls, was desperate, and there was often not so much as a proper provision of clean drinking water.

If we except the primitive efforts at local self-government which were being made by the early Commissioners of Police in some of the burghs and the Commissioners of Supply in the counties it is true to say that most of the amenities we take for granted to-day were entirely lacking. Scotland was backward and the lot of the common man was one of hardship and squalor; we can never adequately place ourselves in that man's shoes.

Dr. George Bell, writing at the time, has described the life in the burghs of these days in graphic language:

"We return day after day and night after night to the scenes of misery, disease and death; we listen to the cry of children, the wail of women and the deep utterances of men. This awful harmony is in keeping with the picture before us; the pathos of the drama is profound....it is difficult to understand why so many thousands of our countrymen are as ignorant, squalid and savage as the aborigines of New South Wales. Yet such is the case, as one may learn experimentally any day in the wynds of Edinburgh. Perhaps the very first person the enquirer will meet will be an Irish immigrant, the father of a large family, a man with young subjects of the Queen under his charge who does not know the name of his Sovereign. The creature has a mental and moral part, but it is petrified /

petrified by superstition and crusted over by ignorance".

Such were conditions in the capital city of Scotland, and those elsewhere were no better; in Glasgow the average death rate was 1 in 34, and every second child born there was dead before it was five. Bell's pamphlets make startlingly terrible reading, as was his intention, but it must be remembered that "laissez-faire" was the economic policy of the day. The view that "suffering and evil are Nature's admonitions" was widely held to be a basic truth. Neither the State nor the local councils acknowledged any social responsibility in such matters and the latter at least were in no way organised to assume such responsibilities. Aberdeen town council had gone bankrupt in 1817 as the result of gross mismanagement, and in 1833, at the time of the Municipal Reform Act, the burghs of Scotland were described as "sinks of political and municipal iniquity".

Nevertheless, a movement towards betterment was on the way, inspired by reformers such as Bell, Stark and Littlejohn, and the local councils found that the responsibility for this forward movement was being thrust upon them. The next century was to be one of dramatic change and improvement, and that at a rate which would then have been thought impossible. The local government system, developed during that period, has been properly described as one of the most original ideas of the 19th century.⁽¹⁾

In 1835, the Royal Commission which had been appointed to enquire into the state of the municipal corporations in Scotland reported /

(1) The Age of Reform. 1815-1875. E.L.Woodward.

reported in great detail as to the administrative shortcomings of these corporations. In the same year the government introduced the first grant-in-aid to local authorities in England.

This first modest subsidy was 50% of the cost of criminal prosecutions at Assize and Quarter Sessions, a sum in all of £80,000, with a further £30,000 towards the cost of removing convicted EARLY
STATE
SUBVENTION prisoners from local prisons. It arose, almost haphazardly as it would seem, out of the dilemma which faced Select Committees of the Lords and Commons which were at that time investigating increases in local rate burdens, namely that "thefts are necessarily of chattels; the costs of prosecution, being taken out of the Poor's Rate, fall entirely on real property." It was clearly anomalous and inequitable to allow a charge to fall on one section of the community, owners of property, when the benefit was enjoyed by all classes.

Even in Scotland, where the system of reporting cases to the Lord Advocate and recovering the expenses of such criminal prosecutions was differently organised, complaints appear to have been made to the Crown as to the incidence on landed property of the rogue money assessed to pay the expenses of unreported cases. There was undoubtedly considerable pressure brought to bear by the land-owning and agricultural classes of the English counties at the time, and this may well have influenced the Treasury to allow the payment. The fact remains that the argument adduced was a true one, one which is at the root of all subsequent State aid.

In 1846, the year in which the Corn Laws were repealed and protection to the farming community was thereby removed, the grant was increased /

increased to 100% and £10,000 was made available to the Scottish local authorities, as represented by the newly formed Board of Supervision,⁽²⁾ towards certain poor law expenses, namely the salaries of medical officers in poorhouses. A prerequisite of this grant, which was aimed at development, was a much needed improvement in the service provided, nothing being received unless expenditure per head of population exceeded a certain minimum which varied according to the density of the population.⁽³⁾ Here, thus early, we see the foundations of State intervention being laid; the government had recognised that what had been given till now as a matter of equity could also be used as an instrument of fiscal control in stimulating expenditure as opposed to the mere relief of rates.

The grant for criminal prosecutions did not, properly speaking, have application to the Scottish counties where, because of the differing administrative arrangements, the cost of "unreported" cases continued to be met out of locally assessed rogue-money. In England such cases were tried at Assizes and Quarter Sessions, and were therefore grant-aided, /

(2) This Board, set up under the Poor Law (Scotland) Act 1845, consisted of the Lord Provosts of Edinburgh and Glasgow, the Solicitor General of Scotland, the Sheriffs depute of the counties of Perth, Renfrew and Ross and Cromarty, along with three members appointed by the Crown. In 1894 its work was taken over by the Local Government Board for Scotland

(3) <u>Grant class</u>	<u>Population per square mile.</u>	<u>Minimum expenditure per head in pence.</u>
1	1 - 25	2
2	26 - 50	1 15/16ths
3	51 - 100	1 14/16ths.
4	101 - 200	1, 13/16ths.
5	201 - 400	1 12/16ths.
6	401 - 1,000	1 11/16ths.
7	1,001 - and over.	1 10/16ths.

grant-aided, so that in order that the measure of relief afforded to England might, so far as the different modes of procedure would permit, be extended to Scotland the Lords of the Treasury of Minutes of 1851 and 1855 granted relief to Scottish counties for the expenses of unreported cases.⁽⁴⁾

Of interest here was the position of Edinburgh, whose burgh court officials were paid exclusively out of council funds, and in respect of which a memorial was presented to the Treasury in 1855 founding upon the fact that the city was a separate county by itself and claiming that it should be placed on a similar footing to other counties in Scotland. The Treasury, after some negotiation, admitted the claim and the arrangement was duly set forth in an agreement signed by the Lord Provost and the Queen's and Lord Treasurer's Remembrancer.⁽⁵⁾

The following year, in 1856, the Police Act extended the grant for police pay and clothing from a purely metropolitan to a national basis, and this was applied to Scotland under the Police (Scotland) Act, 1857, which provided (section 66) that:

"Upon a certificate of one of Her Majesty's principal secretaries of State that the police of any county or burgh has been maintained in a state of efficiency in point of numbers and discipline for the year ending ... it shall be lawful for the Commissioners of Her Majesty's Treasury to pay from time to time out of any monies to be provided by Parliament for the purpose such a sum towards the expenses of such police... as shall not exceed one fourth of the charge for their pay and clothing".

This 25% grant, which in the first year amounted to less than £26,000 /

(4) Exchequer Memorandum of 15th June, 1893; Expenses of Criminal Prosecutions in Scotland.

(5) Edinburgh 1329-1929.

£26,000 for the whole of Scotland, was continued until 1874 when it was increased to 50%,⁽⁶⁾ and again the proviso as to the maintenance of a standard of efficiency is noteworthy. The government, gratified at the results of Sir Robert Peel's London police force, was justifiably attempting to secure national standards for what it had decided was a semi-State service, but "laissez-faire" was gone for ever and State intrusion into local affairs had begun. From now on the financial relationship between central and local authorities was to be a factor of increasing importance.

Further government subventions were made under the Sheriff Court Houses (Scotland) Act 1860⁽⁷⁾ and in 1874 a 50% grant was made towards the cost of maintaining pauper lunatics - some £60,000, with cost per patient week not to exceed 8/-, a grant which because of its lack of administrative control was later to be condemned as "an encouragement to extravagance". For the same reason this grant, too, was held to be responsible for the alarming increase in the number of "pauper lunatics".

The importance of the part played in the early development of services by voluntary societies and Church agencies should not be overlooked. All along self-help has commonly preceded State aid. An instance of this is the Royal National Life-Boat Institution, founded in 1824, and carried on to provide a service which was an undoubted necessity to coastal areas. The development of this service is of special interest for it did not follow the usual pattern of absorption as /

(6) Police (Expenses) Act, 1874.

(7) 50% of the cost of providing court houses.

as a local government function, but instead has continued till the present time, financing itself by voluntary subscription.

During the period from 1854 to 1869 the Institution received an annual subsidy from the government, subject to the now familiar conditions, including government inspection. These conditions were somewhat distasteful, and it was found in any case that voluntary subscriptions were harder to raise when it was known that government grant was available, so the decision was taken in 1869 by the Institute's Committee of Management to forgo the grant. Had this decision not been taken it is likely that the lifeboat service might long since have been one of the grant-aided functions of maritime counties.

For such beginnings, too, grew the Education service. This function which in England had till now been carried out by two voluntary societies with some financial assistance since 1833 in the form of Parliamentary grants supervised by the Privy Council, was made a local responsibility⁽⁸⁾. School Boards were set up to administer the service and substantial grants were introduced. The main grant which had formerly been distributed to the societies according to examination results was now allocated on the basis of the number of children in average daily attendance at school, an additional amount being provided for areas where the rate produce fell short of a fixed sum per pupil.

In the field of education Scotland was already somewhat ahead of England. As far back as 1697 a sum of £150 a year had been granted under /

(8) by the Elementary Education Act 1870.

under Warrant of William III out of the revenues of the Bishopric of Dunkeld towards the maintenance of schools in Scotland, but by the beginning of the 19th century the administration of schools had become a matter for the Heritors and Minister of each parish, the only Exchequer interest being in the striking of the fiars' prices.

In 1838, however, following representations by the General Assembly of the Church of Scotland, provision⁽⁹⁾ was made for Parliamentary grants to "facilitate the foundation and endowment of schools in Scotland", and annual amounts totalling £899 were provided by the Treasury to pay schoolmasters' salaries throughout thirty parishes under the supervision of a Committee of the Privy Council - later to become the Scotch Education Department.

By the Education (Scotland) Act of 1872 a School Board was set up in every parish and burgh for the management of the schools in them, making those schools independent of the Church, and establishing the modern education service. Grants were made available depending on examination results and subject to inspection - a payment, indeed, by results! Later this "examinations" basis was changed to one dependent on average attendance and a general report of the inspector on the condition of the school - the so-called "block-grant" system.

By now the social progress envisaged by the reformers of the/

(9) by the Highland Schools Act, 1838, the Commissioners of the Treasury purchased £24,667:10:4d of 3% Consolidated Bank Annuities, the income from which was to be paid as grant totalling £899 per annum to the schoolmasters of these Highland Schools. In 1873 this principal was paid into the consolidated Fund, out of which the annual sums have since been met.

the 30's was gathering momentum, while Benthamism and "laissez-faire" were gradually being discarded as a practical policy. The railways had opened up the country, and gas and water supplies, until now largely provided by Parliamentary Companies, were being taken over piecemeal by the local authorities.⁽¹⁰⁾

Local improvement Acts, coupled with the Public Health (Scotland) Act of 1867, had made better sanitation a fact, so that by 1881 the death rate was down to 18.8 per 1,000. Goshen, in a monumental survey of the country, had reported to the English Poor Law Board in 1870 a doubling of the local rates in the past thirty years, and many towns and cities had spread their boundaries by extension Act powers. In council chambers throughout the country a new tradition of local government was being created, and most of all, industrial and scientific discoveries had made the age an expansive one, while the writings of reformers like Dickens and Carlyle had given it a social conscience.

By now, too, the old turnpikes had finally disappeared from the roads and the burden of roads upkeep had been cast upon the local rates.⁽¹¹⁾ In 1882 a new State grant of £250,000 was divided among the local authorities towards this cost, again because this seemed to the government to be a more-than-local responsibility for which a national standard should be maintained. Scotland's share of this was £30,000 in the first year, adjusted later by reference to population and mileage of roads. The sum involved, amounting as it did/

(10) under powers given in the Burghs Gas Supply (Scotland) Act 1876, and the Burgh Police Act, 1892.

(11) by the Roads and Bridges (Scotland) Act, 1878.

did to only 1/5d, for every pound spent on road maintenance, seems little enough judged by present-day costs, but already the total annual amounts being paid out as direct grant-in-aid by the State had become so relatively large as to prompt the government to review the whole position. There were other considerations too; it was claimed that the grants mainly relieved the agricultural landlord, that they caused extravagance on the local authorities' part and that they were piecemeal and unsystematic.

II

The solution proposed was a simple one, namely to disburden the State so far as possible of direct payment of grant and to provide the local authorities with an alternative source of revenue.

ASSIGNED REVENUES.

By the Local Government Act of 1888, applied to Scotland by the Act of 1889, all the main grants, except for Education, were discontinued. In their place the local authorities were to receive the proceeds of a number of locally collected licences, as follows -

40% of licence duties on the retailing of beer, wine, sweets and tobacco; and on -

Refreshment houses, male servants, dog appraisers, carriages, auctioneers, plate dealers, pawnbrokers, armorial bearings, the shooting of game and the carrying of guns.

These /

These items were earmarked as being of a "local" nature. In addition, the local authorities were to receive a share of the probate duties - this was intended to produce the effect of making personalty contribute to some extent. The total sum thereby obtained - in all some £5,600,000, was paid over to the local authorities either through a separate Local Taxation Account where State-collected duties were concerned, or by being retained by the authorities where they were collected locally.

The aim of the scheme, which was devised by Goschen, the then Chancellor of the Exchequer and one whose name has since been firmly associated with local government, was once and for all to separate local from State finances. In combination with the other provisions of the 1888 and 1889 Acts - legislation which laid the foundations of the modern system of local government, they radically altered the entire structure of municipal administration throughout the country. In England the basis of distribution of the local Taxation Account to the counties was in respect of the specific services aided till now and to the Boards of Guardians a per capita sum for every indoor pauper, though it is interesting in view of later developments to observe that during the debate on the Bill the suggestion was put forward of using a combination of population and rateable values as a distribution basis in order to introduce an equalising factor. The suggestion was not, however, adopted.

So far as Scotland was concerned, the former grants now discontinued were for -

Roads /

	£
Roads	70,000
Police	154,000
Pauper lunatics	91,300
Medical relief	<u>20,000</u>
	(12)
	<u>335,300</u>

In place of these the greater part of the excise licence duties were assigned to the local authorities, and though they continued to be collected by government officials were henceforth regarded as local income. In addition half the probate duties were earmarked, and were distributed to England, Scotland and Ireland in the ratio 80,11,9, these being the proportions in which the three countries were then regarded as contributing towards the public revenue as a whole. In Scotland these monies were paid into a central Local Taxation (Scotland) Account, and were specifically allocated to - the relief of rates in the Highlands and Islands, the cost of roads, police, medical relief and pauper lunatics.

Any balance remaining was appropriated to the relief of school fees.

By way of illustration, Turner ^(I) summarises the Local Taxation (Scotland) Account for 1905- 1906 as follows -

I /

(12) Local Taxation in Scotland - S. Horsfall Turner.(1908).

I - Local Taxation Licences and Estate Duty.

Payments into -

1. Proceeds of licences £383,935.
 2. Estate Duty 315,400.

Payments out -

1. Highlands and Islands grant £ 10,000.
 2. Roads grant 35,000.
 3. Police pay and clothing grant 155,000.
 4. Medical relief grant 20,000.
 5. Pauper lunatics grant 115,500.
 6. Secondary education 60,000.
 7. Universities 30,000.
 8. Parish councils - relief of rates 50,000.
 9. Cattle pleuro - pneumonia account 840.
 10. Counties and burghs - relief of rates 185,017.
 11. Relief of school fees 37,978.
£699,335.

II - Customs and Excise Duties.

1. Proceeds of customs £ 18,756.
 2. Proceeds of Excise 135,407

1. Police Superannuation £ 40,000.
 2. Relief of school fees 40,000.
 3. Medical Officers and sanitary inspectors 15,000.
 4. Counties and burghs - (relief of rates or technical education) 59,163.
£154,163.

III /

(13)

III - Estate Duty (Agricultural Rates etc. (Scotland) Act, 1896)

11/80ths of grant to
England and Wales £182,475.

- | | |
|---|------------------|
| 1. Burgh land tax relief | £ 7,990. |
| 2. Congested districts in
Highlands and Islands | 15,000. |
| 3. County and Parish councils
(relief of agricultural
occupiers). | <u>159,271.</u> |
| | <u>£182,475.</u> |

£182,475.

£182,475.

IV - Consolidated Fund (Local Taxation Account (Scotland) Act, 1898)

Grant from H.M.
Exchequer

£ 97,938.

- | | |
|---|------------------|
| 1. County and Parish
councils -additional
relief to agricultural
occupiers | £ 20,000. |
| 2. Police pay and clothing
(additional) | 25,000. |
| 3. Marine Superintendence | 15,000. |
| 4. Residue to secondary and
technical education | <u>37,938.</u> |
| | <u>£ 97,938.</u> |

£ 97,938.

£ 97,938.

At first the new grant provisions seemed to work and
provided considerably more money than the discontinued grants ever did;
central /

(13) The Agricultural Rates, etc. Act 1896 provided that the
occupiers of agricultural land in England would pay only 50%
of the rate in the pound, the deficiency being met by an
additional grant out of the Estate duty on personalty.
Equivalent grants were made for Scotland based on 7/16ths of
the rates on agricultural subjects in 1895-96.

central control was retained by provisions in the Act that no authority would receive its full share of the subventions unless it maintained prescribed standards in the services. When the Police (Scotland) Act 1890 made it obligatory for police authorities to set up Police Pension Funds additional grant was made available partly out of surtaxes on beer and spirits to meet this new charge. Once again, Scotland's share of these surtaxes was fixed at 11/100ths.

Thus, the Local Taxation Return for Scotland for 1895-96 (14) shows the following allocation of the revenues:

<u>Imperial Grants.</u>		
	£	%
Burghs	210,884	13.4
Counties	188,947	12.0
Parochial authorities:		
Parish Councils	£188,796	
School Boards	981,953	
	<u>1170,749</u>	74.6
	<u>£1570,580</u>	

In addition, £74,428 was paid over towards Police Pension Funds.

In general, however, it had been visualised that as the local authorities grew and expanded so too would the licence duties which fed the Local Taxation Account grow and expand, and the grant aspect of local finance would be to some extent self-supporting. It was an ingenious enough idea but very soon it became obvious that the desired /

(14) House of Commons Accounts and Papers. Vol.34. 1899.

desired effect was not forthcoming. New grants for a variety of purposes were made and old ones increased. Any one of these early grants would provide an absorbing topic of discussion. The man-in-the-street barely knew of their existence, but in official circles discussion centered round their proper distribution, while experimentation with different bases slowly crystallised through trial and error into informed opinion.

"I think earmarking to any specific purpose to which the Legislature may say it should be applied is what we should do. I think that giving generally in aid of the rates is a system which does not tend to the best administration"⁽¹⁵⁾. Here was the real distinction between a direct subvention and a grant-in-aid, terms which have nowadays largely lost their original meanings, even if the ideas implicit in them have gained in importance. Out of all the arguments and expedients and the seeming confusion of the late 19th century grants emerged the ideas on which our modern grant system rests.

There was for example, the "residue grant". In 1890 a Temperance Bill was introduced in Parliament which provided for a reduction in public-house licences, and which visualised compensation to those deprived of their licences. Funds for this compensation were made available, but at the last moment the Bill failed to become law and it was resolved to return the money, which had been raised by an/

(15) Patten MacDougall in evidence before the Royal Commission on Local Taxation, 1899.

an extra tax on beer and spirits, through the Local Taxation Account for the relief of rates. As a result of pressure brought to bear by educationists, however, the sum in question was eventually distributed to meet certain fixed charges, such as the Police pensions mentioned above, with the residue optionally available for technical education. We are told that for many years Glasgow used its "whiskey money" in building up the Mitchell library.
(16)

Another development of the Local Taxation Account was the "equivalent" grant, which arose out of the fee grants paid in England from 1891 to compensate authorities for foregoing school fees - an attempt at free education. Scotland's "equivalent" was handed over from 1892 onwards and was distributed to county and burgh councils on the basis of the mean of population and rateable value for the relief of rates.

Services, however, kept expanding and local expenditures mounted so that the grants lagged far behind, and before long criticism arose of the whole machinery of grants so recently set up. Then, too, the book-keeping attached to the distribution of the assigned revenue was so unnecessarily complex that, in the words of the report of the Royal Commission on Local Taxation of 1896: "only those whose official duty it is to be constantly threading the maze are able to carry in their memory the clue to its intricate convolutions".

This Royal Commission which was set up in 1896 under Lord Balfour /

Balfour of Burleigh had terms of reference which required them to report "whether all kinds of real and personal property contribute equitably to taxation raised for local purposes, and if not, what alterations in the law are desirable in order to secure that result". The reports of the Commission⁽¹⁷⁾, which probed deep to the very roots of the technique of giving grants, are interesting in that they classified local services into two main categories - those which were "national and onerous" and those which were "local and beneficial".

In the former case there were certain services which local authorities were bound to provide as part of State policy, services which were mainly of benefit to individuals. These would include, for example, education, police, poor relief and main roads. The second category embraced services which were provided locally and optionally and which tended to benefit property taxed for their provision. The Commission felt that the national and onerous services should be financed on the basis of "ability to pay", and since rateable value failed to reflect a person's ability to pay with any degree of accuracy the State should preferably bear the whole cost out of national taxation. So as to avoid "nationalising" such services and taking them out of the control of the local authorities the Commission recommended an equal partnership.

Lord Balfour's Commission, investigating the local taxation /

(17) Cmd.639. 1901.

(18)
 taxation position in Scotland in 1902 drew attention to the wide variations in rateable value between authorities. There the parish, which was the unit for poor law purposes, was often pitifully small, and the need for equalisation was greater than in England where, though the parishes themselves might be small the Poor Law Unions were much larger and consequently more viable.

Meanwhile the local authorities were developing quickly under the recent Local Government Acts, and new local Act powers were constantly being obtained to extend their spheres of influence still further. In 1902 the administration of education in England was transferred from the School Boards to the local authorities⁽¹⁹⁾ bringing with it an increase in the grant. It was not until 1918 that the school boards in Scotland were finally taken over by 38 local education authorities - five large burghs and thirty-three⁽²⁰⁾ counties.

During the next twenty years the assigned revenues system suffered a gradual disintegration and fell into disrepute. Expanding services called for new grants which were never sufficient to meet the steeply mounting costs of the local authorities; in the twenty years up to 1911 local expenditure on "national and onerous" services alone increased threefold. Moreover the constant drain on state resources was something that had never been visualised in 1888, and matters were not improved by the freezing of certain of the revenues assignable to the local taxation account at their 1908-9 yield.

In /

(18) Cmd 1067, 1902.

(19) Education Act 1902.

(20) Education (Scotland) Act, 1918.

In 1911 the Kempe Committee was appointed to consider the situation in the light of the Balfour Commission's report and make recommendations. They reported in 1914⁽²¹⁾ that the assigned revenues system should be discontinued, and the amount of money allocated to the local authorities from State sources should be substantially increased. Instead of the term "national and onerous" they preferred to distinguish between "local" and "semi-national" services, such as Public Health, Police, Education, Poor relief, Pauper lunatics, and Roads.

No action was taken on the report of the Kempe Committee, nor did it have the opportunity to deal separately with Scotland, for the Great War intervened. New subsidies, mostly on a percentage basis, continued to be made both during the war years and after - grants for maternity and child welfare in 1915, for the treatment of venereal disease in 1916, for electoral registration and for education in 1918. In 1919, the first of the long succession of housing Acts relieved Scottish housing authorities of the estimated loss in providing new houses under deduction of the produce of 4/5ths of a penny in the pound on rateable value, and stimulated the provision of new houses for the increasing population, a burden which, apart from private building, the authorities had had up to then to shoulder unaided under optional powers given by the Housing Act 1890, or by local Acts.

The /

(21) Cmd 7315, 1914.

The history of the grant system is the history of modern local government. It is the record of continuous and tremendous expansion and improvement of local services under the pressure of social events, and the chronicle of periodic crises when the authorities on the one hand never seemed to have enough money to provide all the services demanded, and on the other hand the government was dismayed at the seemingly uncontrollable calls on its resources under existing grant arrangements.

Perhaps it will always be so, for it is not merely a question of finding a just administrative balance between central and local authorities and then developing a permanent financial relationship to maintain that balance. There is never any permanence in such relationships, for things are always changing, and what may seem a workable system to-day becomes inadequate within a few years. One of the shortcomings of grant systems up to the present has been their failure all along to adapt themselves to change.

III

In 1929, despite strong opposition and disregarding the advices of the Meston Committee which had toyed with the grant BLOCK GRANT. problem since 1922, Churchill, the then Chancellor of the Exchequer, brought a new principle into the relationship by introducing the Black grant.

The Geddes Committee on National Expenditure⁽²²⁾ had underlined /

(22) Cmd 1581. 1921

underlined the compelling need for government economies and it was necessary to put a firm limit on the drain on the Exchequer. The percentage grants, while they were a useful incentive to the local authorities to develop those services which the government wished to see developed, were not susceptible to control and were therefore a source of unease at the Treasury; there was to be no further extension of them.

The Local Government Act of 1929 and the Local Government (Scotland) Act of the same year which were making sweeping changes in the structure of local government, were also partly derating agriculture and industry, and the new Block grant was to take account of the resulting loss of rates to the local authorities. In addition, Block grant-in-aid was to take the place of:

the assigned revenues, (apart from those specifically applied to education and police) -	£ 4,501,300.
Agricultural rates grants	4,733,095.
Health percentage grants	3,907,621.
Roads grants	3,137,690.
and additional "new money" to be voted periodically	<u>5,000,000.</u>
	£21,279,706.
together with the estimated loss by derating	<u>22,292,203.</u>
making a total of	<u>£43,571,909.</u>

Scotland's share of this was fixed at eleven-eightieths, the Goschen equivalent which had previously been used in comparing the /

(23)

the two countries' different levels of valuation, and the total amount so arrived at was to be distributed among the counties and counties of cities according to a grant formula which took account of population, sparsity, rateable value and unemployment. This formula is discussed elsewhere; it is sufficient for our present purpose to observe that the new Block grant hinged round three principal ideas. First, it recognised that the State should contribute to the local authorities in aid of expenditure incurred in carrying out State policies, not only as specific advances but as general lump sums for the authorities to spend as they pleased. Secondly, it took account of needs - the fact that some authorities were more necessitous than others, a disparity which was being accentuated at the time by industrial unemployment. And, thirdly, it put an end, for the time being at any rate, to the main percentage grants.

In conception the general exchequer contribution, which owed much to the work done by the Balfour Commission of 1896, was something quite novel and in its detailed application it was highly ingenious. In order to allow the country to settle down to the working of the formula it was arranged that during the first four fixed grant periods of three, four, five and five years the weighted population /

(23) The Government of Northern Ireland Act of 1920 established separate financial administrative arrangements for that part of the United Kingdom, which made it no longer comparable for those purposes with Scotland, England and Wales. As a result the old Goschen ratio of 80, 11, and 9 was simply adapted to exclude Ireland.

population formula would be applied to 25%, 25%, 50% and 75% of the Block grant respectively. There was, too, a general guarantee that the ratio of the block grant to the total rate and block grant borne expenditure should be fixed at 23.18% , the proportion for the first fixed grant period, in future revisions of the amount of the block grant, so that the grant would rise in proportion to expenditure. Each year a total pool of State-found money was made available, this pool being calculated anew for each grant period.

In 1936 the formula was reviewed and adjustments made to the unemployment and sparsity factors which had the effect of making them more responsive to change⁽²⁴⁾. It would be unrealistic to think of these changes out of the context of the general economic situation obtaining at the time. After a brief revival in trade immediately following the 1914-18 War, the depression of the early 1930's had caused mass unemployment throughout the country. In Scotland in particular, shipyards and factories were idle and a depressed area comprising the whole Lowland industrial belt was created - now a development area - marked down for any government assistance which could be given.

Numerous schemes to relieve the situation were engaged in, among them the use of municipal relief works. An Unemployment Grants Committee had been appointed in 1920 with power⁽²⁵⁾ to assist local authorities and other public bodies to carry out approved schemes of/

(24) by the Local Government (Financial Provisions) (Scotland) Act, 1937.

(25) given by the Unemployment (Relief Works) Act 1920 and the Public Works Facilities Act 1930.

of useful work, and this committee continued making grants for these purposes until 1931 when, as a result of the economy campaign, it was allowed to lapse and no further grants were made. By 1934, 23.1% of the working population was unemployed and the same high incidence persisted throughout the decade up to 1939. In retrospect it is doubtful whether the grant system was ever sufficiently flexible to play its full part during these troubled years.

The Block grant, however, was not to be allowed to evolve according to the original intention. The War of 1939-45 intervened, and the grant allocations were fixed at the third phase⁽²⁶⁾ and continued until 1948, with supplementary contributions being made during the last three years, allocated so as to favour those authorities with a relatively high rate in the pound.

By then, the State was diverting some £269 millions a year of the national income in aid of local services, or 47.7% of local expenditure. Of these grants, 11.2% were of a general nature.

IV.

In the years immediately following the war the new government hastened to introduce a veritable spate of new legislation, some of it designed to adjust the country to the post-war situation, and some to implement the ambitious conception of the Welfare State put forward by Sir William Beveridge in 1942. Many health services previously carried out by the /

EXCHEQUER
EQUALISATION
CONTRIBUTION.

(26) Local Government(Financial Provisions) (Scotland) Act 1941.

the local authorities were transferred to the State under the National Health Service Acts of 1946 and 1947. The Fire Service, nationalised for the duration of the war, was handed back to the local authorities by the State in 1947. The Electricity and Gas industries were nationalised in 1947 and 1948, and the National Assistance Act of 1948 finally transferred the main responsibility for Poor Law administration from the local authorities to the State, where it found a central place in the Welfare plan. Many new grants, mostly on a percentage basis accompanied these changes, grants for town and country planning, for education, for local health services, for housing and for the children service.

All these transfers of authority, apart from the many administrative problems they raised, created a situation which was quite different to that which has previously existed, and the administrative balance between central and local government was profoundly affected, so that a reappraisal of the grant system became inevitable. Over the years the idea of a general subsidy had become established, but since the block grant itself still did not prevent wide variations in local rate poundages it was not now considered adequate to meet the new conditions. Nor was this surprising, for now there was full employment and rising inflation in the country, then deflation and unemployment were the predominant features. A different approach was being proposed and in 1947 the Minister of Health explained this in the following terms: "... we are principally concerned with what happens to the individual and what we should find out therefore, is whether two citizens of equal substance in different parts of the country have to make an equal contribution/ "

"contribution for the same local services".

In 1948 the existing Block grant was discontinued, and a new general contribution was provided for by the Local Government Act of that year based once more on an entirely different principle. This was the Exchequer Equalisation Contribution. The intention of the new grant was to give assistance to those authorities whose resources failed to come up to a national standard, and this standard was to be determined by reference to the average level of financial resources of the country as a whole, measured according to average rateable value per head of weighted population.

For Scotland the national standard against which local financial resources would be compared was to be the average rateable value per head of weighted population in England and Wales increased by 25%, so as to take account of the different level of valuations in the two countries. The intention was that the standard used in both countries should be as nearly as possible the same.

Briefly, the plan was to fix a standard statistically and then compare each local authority with this standard. Local authorities which fell below the standard would have rateable value "credited" to them to bring them up to the standard, and would receive grant equal to the amount which the credited rateable value would have yielded at the local rate poundage if it had, in fact, been actual rateable value. The State would become a ratepayer in respect of the deficiency. Those authorities, on the other hand which were above the standard would receive no grant at all.

Since /

Since 1948 there have been two Scottish investigations into the working of the system, one in 1953 and the other in 1955. The first committee to report criticised the standard which assumed the average rateable value per head of weighted population in England and Wales increased by 25%. This percentage was not found in practice to be a fair one for Scottish local needs and the committee, unable to find any more accurate measurement of the difference in valuations between the two countries, recommended the temporary use of the Goschen equivalent of eleven-eightieths, a ratio which has been used for many years in determining education grant and, as we have seen, in distributing the old Block grant. It is curious to see how this ratio, arrived at some eighty years ago, is still found to be of use despite its complete lack of justification at the present time. It is not so much that the ratio works, in fact, but that, although this would be difficult to demonstrate, it is probable that it acts in favour of Scotland. The Local Government (Financial Provisions) (Scotland) Act, 1954 at all events adopted this basis applied to the equalisation grant payable in England and Wales, the standard being fixed at such a level as would absorb all the grant available under the Goschen formula, and the result was to increase the percentage from 25% to 38%, and the total sum available to Scotland by over two million pounds.

Even at this new figure the criticism of unfairness to Scotland continued to be made. The second Scottish investigation quoted /

quoted a burden of rate borne expenditure per head of population in Scotland of £8.55 as compared to £7.78 in England and Wales.

The matter, indeed, went deeper than a mere readjustment of formula. By 1952, the responsible Minister could say: "The Equalisation Grant is not, and cannot be, designed to ensure that individual citizens in different parts of the country bear equal local burdens. The whole basis of our rating system by reference to rents (which vary most markedly in different parts of the country) by itself makes this an unwarrantable assumption." ⁽²⁷⁾ The Grant, it was clear, would only work fairly provided there was complete uniformity in valuation for rating throughout the country. Accordingly, a wholesale revaluation of rateable subjects was embarked on in England and Wales.

In Scotland, a Scottish Committee on Valuation and Rating under Lord Sorn was appointed to examine the Scottish System and in 1954 gave their opinion ⁽²⁸⁾ that owners' rates in Scotland should be abolished so as to bring Scotland broadly into line with England and Wales by 1961. This recommendation was made law by the Valuation and Rating (Scotland) Act in 1956, which froze rateable values at their existing levels, and made an interim adjustment to the equalisation grant for Scotland, so that there was substituted as an alternative to the Goschen ratio allocation one based on comparative rate burdens. By these arrangements it was hoped that by 1961 there would be a general measure of uniformity throughout the whole country.

V. /

(27) Address to the Annual Conference of the Institute of Municipal Treasurers and Accountants. June 1952.

(28) Report of the Scottish Committee on Valuation and Rating.Cmd.9244

V.

Meanwhile, despite the importance of the GENERAL GRANT. equalisation grant since 1948 and the government's apparent preference for general contributions of this type, the continuing increase in specific grants must not pass unnoticed. In the field of education a new formula grant was introduced in 1946 to be followed latter by an advanced technology grant of 75%; in the twenty years up to now education grants had increased by 377%. There were further grants, too, for housing and to encourage civil defence - always a difficult service to foster. All these were services which, for their various purposes the government felt compelled to develop regardless of the added burden on the national exchequer.

By 1955, acute inflationary pressure in the country made it necessary for the government to take serious action, and a series of measures were adopted to this end which were commonly known as the "credit squeeze". These measures included the raising of Bank rate and restrictions on bank credits and on hire purchase trading. The boomerang of popular criticism of government and local government spending activated a stern review of these fields. Local borrowing from the Public Works Loans Board at favourable interest rates was reduced to a minimum, local authorities being thus obliged to borrow in the market, and in 1956 the Housing Subsidies Act reduced general housing /



housing grant in England with the intention of ending it.

In addition, there had been under review for some time the question of local government reform, and the Edwards Committee⁽²⁹⁾ had given detailed consideration to the working of the equalisation grant in England and Wales. Fundamental changes in the administrative structure of the authorities were being envisaged, more particularly in England and Wales, and with this in mind the government made known its proposals early in 1957, at which time the intention was announced of raising the rate contribution of industrial and freight transport occupiers from 25% to 50%, thereby increasing rate income in Scotland by an estimated annual £2.3 million.⁽³⁰⁾ At that time the Minister of Housing and Local Government said:

"The Government intend a major recasting of the financial relationship between the Exchequer and the local authorities. This will entail a radical revision of the structure of Exchequer grants, as well as some reduction of the grants to take account of the new rate income. With a few exceptions where technical considerations make it not possible or desirable, specific grants will be replaced by a general grant of an amount fixed in advance for a short period of years, though not necessarily at the same level for each year of the period. This general grant will be distributed to all county and /

(29) Investigation into the operation of Exchequer Equalisation Grants to Local Authorities in England and Wales. Cmd. 9270, 1954.

(30) estimated on the basis of rate poundages for 1956-57 - note that a corresponding reduction in general grant is to be made to the extent of two-thirds of this figure.

and county borough councils in England and Wales, and to county and town councils in Scotland by reference to objective factors (mainly of weighted population) which are readily ascertainable and afford a fair and reasonable measure of the relative needs of each authority.

With this change, local authorities will acquire a great increase of responsibility in determining the money to be spent on the various services in accordance with local needs. Local government will become more truly local".⁽³¹⁾

In spite of a considerable amount of misgiving from local authorities - at the second reading of the Bill it was said that every authority in Scotland except the City of Edinburgh had opposed the measure - and, in particular, from the teaching profession which felt that the education service might be prejudiced by the new arrangements, the Local Government and Miscellaneous Financial Provisions (Scotland) Act 1958 duly provided legislation taking effect from 16th May, 1959 to implement these proposals. A general grant was created in place of a number of specific grants⁽³²⁾ which had amounted to approximately £37 million; of these the most important was the education grant.⁽³³⁾ At the same time a few minor specific grants were discontinued.

The essential feature of the general grant, which is a Scottish grant distributed according to a formula which pays attention to Scottish local needs, is that no part of it is attributable to any particular service. Population is the principal distribution base chosen, but the exchequer equalisation contribution will remain to level up local resources.

What /

(31) Hansard. P.1081. 12.2.57. (32) see Appendix B.

(33) see Appendix C.

What is important to realise is that this new grant, while it was perhaps initially an emergency control measure designed to check local spending under the conditions prevailing at the time, is more than just a short-term remedy. Indeed, the need to control inflation which was vitally important until 1958, has changed since then so that the emphasis is now in the opposite direction. General grant, however, provides the central government with a much increased flexibility of control over local expenditure under any extreme of external economic conditions. How the rating system will respond to the use of this control remains to be seen.

It would be wrong to consider the grant in isolation for it is meant to do more than simply pay the State's share of semi-national services under inflationary or deflationary conditions. If it succeeds in achieving its intention of bringing about a real popular interest in local affairs it will have amply justified itself. Until the experience of the next few years is available, however, no real judgement can be passed upon it.

In thus outlining the development of the system of State contributions in aid of local authorities up to the present time we have spanned a whole era and witnessed the emergence of an entire new way of life. Such a survey must necessarily be brief; we have been dealing with a hundred years of growth and how can we catch the processes of a century and epitomise them in a word?

When /

When these grants were first used in Scotland in 1846, Peel's sevenpenny income tax was but four years old and State interference was limited to a minimum. Local services were negligible and living standards and wages were at subsistence level, so that a man could work for eighty hours a week and earn but nine shillings, while women and girls were described in Royal Commission reports as emerging from coal-mines, weeping from the excess of their labours. There was no effective provision for education, no police force, no proper roads, no health service. The gulf between Disraeli's "two nations", the rich and the poor, was immense.

During the intervening years all that has altered, and we may ask ourselves to what extent local government aided by State subventions has played its part in achieving this alteration. We now find ourselves at the start of a new technological revolution which holds great promise if we turn it to our best advantage, and we have again to ask ourselves whether our system of public finance is the best we can get and in tune with the new age, or whether it is simply an outworn makeshift of a system haphazardly devised for a day and age that has gone for ever.

The temptation of history is always to try to extrapolate the past in an effort to see some way into the future. It is as though we are spectators of a moving film which stops - and we ask with impatience: what comes next? It is all too easy, too, in examining such problems to become snared in a confusion of figures and formulae and arguments of political expediency from one side or the /

the other, so that the real situation behind the arguments and figures is lost.

If there is one lesson we can draw from these considerations it is that nothing ever stands still, and that whatever relationship there may now exist between central and local authorities will change again almost before its implications can be analysed.

3. - SPECIFIC CONTRIBUTIONS

I.

The essence of the specific grant is that it is directed to some particular service. It may be given as a percentage of approved local expenditures on the service, or alternatively, as a contribution per unit of cost of the service. Sometimes a combination of the two is used, but usually the former method has been preferred. "The English grant system," it has been remarked, (1) "is predominantly a percentage grant system."

Yet although of all grants to local authorities PERCENTAGE GRANTS they have till lately formed the larger part, successive governments have deplored the use of percentage grants and have taken steps from time to time to disburden themselves of them. (2) The Geddes Committee in 1921, for example, stated categorically:

"The vice of the percentage grant system is that the local authority which alone can really practise economy in these services loses much of its incentive to reduce expenditure..... the deciding voice as to what money should be spent is not that of the government nor the House of Commons but that of the local authorities."

More recently, in a statement in the House of Commons in 1957 the Minister of Housing and Local Government said:

"Percentage grants, whatever their merits, carry two disadvantages. First, there may be danger of an excessive degree of detailed central supervision over the spending of the money/

(1) Local Expenditure and Exchequer Grants - D.S. Lees and others
p.156 (1956)

(2) Cmd. 1581. 1921

money. Secondly, there is no certainty from year to year what the Exchequer may be called upon to contribute."

In spite of these condemnations, specific grants have their uses and form a natural and necessary part in the development of the grant system. Until 1887 all grants were for specific purposes, being given either on a unit or a percentage basis. Of these the percentage type was always by far the more usual. Modern thinking on these matters shows a distinct preference for the general allocation of monies rather than the direction of a multitude of smaller amounts to specific services, but there still remains a large number of grants of this type, the more (3) important of which are those for Housing, Roads and Police.

There were two reasons, for example, whatever other considerations were in mind at the time, why general Police Grant, which has remained at 50% of net approved expenditure since 1874, was not made part of a general contribution at the recent review. One was the difficulty of comparing with the rest of the country for these purposes the London Metropolitan Police Force - a quite unique body with its very large establishment and the many special duties entrusted to it; the other was that there was not the same need to impose economy limits on local police authorities as there was for other services.

Police authorities in Scotland are counties and large burghs with populations over 50,000 where a police force is maintained, or combinations of these authorities for the purpose, and the/

(3) see Appendix A.

the cost of this service is largely determined by police pay and allowances for the establishment approved by the Scottish Home Department.

All questions relating to such pay and allowances are decided by the National Police Council, so that an individual local police authority can do little by itself to influence spending on the service beyond implementing the decisions of the national council which is representative of both the Home Department and the Home Office as well as the local authorities.

Furthermore, payment of a grant to a police authority is conditional upon the Secretary of State being satisfied that the police area is efficiently policed, that adequate co-operation is afforded to other police forces, that the police service is efficiently and properly equipped and administered, and that "the rates of pay and allowances of the force are as prescribed or approved by him". If he is not satisfied on any of these matters he may withhold the grant in whole or in part, permanently, or for such time as he may determine. (4)

Consequently, it could hardly be said that the 50% grant, paid in accordance with the Police Grant (Scotland) Order 1947, was an encouragement to extravagant spending, or that it removed the control of expenditure on the service from the government.

The police grant described serves to draw attention, albeit by way of exception, to the characteristic features of a specific percentage grant, which may now be stated.

Firstly/

(4) S.R.O. 1947. No. 1659/S.66

Firstly, such grants encourage the local authorities to spend money on services regarded as of a State or semi-State importance. In the knowledge that the State will meet half the cost, the local authority will be encouraged to develop a service until its standard is as high as possible for the benefit of its local population, and, to the extent of the government's percentage contribution, at any rate, there is no inflationary problem for the local authority since the grant moves with rising costs. Further, emphasis can readily enough be placed on some special aspect of the service sought to be encouraged; grant has been based for instance on the salaries of teachers with a view to increasing the general calibre of staffs in schools. Again, by the simple expedient of setting a date after which grant will not be payable, the State can ensure that the particular service will be developed as quickly as possible, a device which has been much used in the Housing subsidies. A specific percentage grant, therefore, is a very useful method of distribution in the case of new or developing services, and the government always has these advantages in mind initially.

Unfortunately, grants used in this way have a habit of rebounding on the State in a very short time, for money continues to be spent on the service, over which the State has no very great control; the government must simply go on meeting, say, 50% of all expenditure incurred on the service by the local authority. The local authority, for its part, has no incentive to economise; indeed the reverse is the case, for if it manages
by/

by dint of skimping to reduce costs on the service, the percentage grant, too, will be reduced, and only a part of the saving will be felt by the local authority. Consequently, the council will prefer to keep its expenditure up, and may even, in theory at any rate, engage in reckless spending ... it is easy after all to spend money that is not one's own. There is, happily, a measure of responsibility on the part of most local authorities, together with a regard for the level of rate-borne expenditure which will act as a brake on any possible extravagances in this direction. Quite obviously, of course, it is not sufficient for the local authorities to protest that there has never been any evidence of extravagance; the government, as a matter of simple financial control, must endeavour to ensure that there cannot be.

Secondly, the State in the interests of securing national standards of service and performance, together with a natural desire to see that its money is being properly applied, will tend to exercise statutory control over local services by giving or partially withholding grant, a potent instrument when combined with detailed audit and inspection by government departments. Such control, however necessary, and indeed often useful as it can be in the discussion of problems, represents an interference into local affairs which, if carried too far, would inhibit local initiative. Local councils would feel that they were mere agents of the government, unable to take decisions of their own accord until the policy of a government department had been ascertained. This situation does in fact arise, for example, in/

(5) A recent instance was the temporary withholding of police grant from the City of York in August, 1959 following criticism of the standard of police accommodation by Home Office inspectors.

in the duty entrusted to counties and burghs with a population over 50,000 of collecting motor licence duties for the Ministry of Transport under the Roads Act of 1920. Here the authority is little more than a branch of the civil service.

Again, Highways grants are paid each year out of a sum fixed by Parliament, but the meticulous supervision attached to the spending of the money robs the authority of any initiative in the matter. The distribution of these highways grants constitutes a special problem at the present time, and no attempt has been made to generalise them along with other specific grants until the full effects of general grant are seen, and some acceptable basis can be agreed between the government and the local authorities.

(6)

In 1958, the position in Scotland was as shown:

	Mileage	Expenditure in £000	Percentage grant	Distributed by-
Trunk roads	1949	2638	% 100	} Scottish Home Department
Class I roads	4808	4536	75	
Class II roads	3922	1559	60	
Class III roads	6318	1810	50	
Unclassified roads	10,852	2466	-	
Total	27,849	13,009		

Here the chief difficulty is one of determining needs and priorities in distributing grants. It is clearly not sufficient to/

to fix a percentage; there has then to be determined where the grant shall be given and this is the responsibility of the Secretary of State acting through the Scottish Home department. Normally the work of making trunk roads, for example, is carried out for the Home Department by the appropriate local authorities on an agency basis and paid for by reimbursement grants after examination of the work and the costings. In a sense these are not true grants at all but simply payment for work done with no local contribution.

Trunk roads expenditure differs from other services in that it is not necessarily annually recurring, so that the Secretary of State must reconsider each year where to allocate the money for specific projects. In doing so he will be guided by:

the existing mileage of roads.

the use made of existing roads (e.g. freight transport, tourism).

the suitability of roads for different types of transport.

the age and present condition of roads.

the physical character of the country.

the economic needs of area.

These considerations must remain a matter of national policy to be determined centrally in accordance with the sums voted annually by Parliament, and with the relative needs of the areas.

Roads other than national highways, on the other hand, take on an increasing local character as reflected by the reducing percentages of the classification grants and are more accurately the/

the joint responsibility of the local authorities and the Secretary of State. Similar factors to those listed above will require annual reconsideration so that such grants are not susceptible to being included in any general grant. It must remain with the Secretary of State, who alone can have an overall knowledge of the needs of the areas in Scotland, to allocate these grants in consultation with local authority representatives.

Roads, once made, require costly upkeep to maintain them in proper condition and it is unfortunate that the sums made available for maintenance and minor improvement of the classified roads are dependent to a large extent on external economic considerations. One point which has proved troublesome in the past has been that the large burghs, though highway authorities, receive no maintenance grants. This position has arisen no doubt as a matter of expediency, but it can readily be argued that if classified roads pass through the large burghs their maintenance should be aided by grant. The difficulty of course is to determine the relative extent to which such roads are used by local and by non-local traffic. To the extent that non-local use is primarily involved the argument for giving grant is a good one, but experience seems to show that this is not the case. Again, some highway authorities spend more than others on this function and there is always the problem of differing local costs.

Consultations are at present in progress between the central and local authorities, and one suggestion appears to have favoured/

favoured a single uniform treatment of counties and counties of cities for maintenance grants, the sum available being distributed so as to give a "road equalisation bonus" to highway authorities calculated by reference to annual expenditure and the comparative burden of rate borne by expenditure per head of population. There, inconclusively until the effects of general grant are assessed, the matter rests.

Such road grants, then, though they are specific percentage grants, are an exception to the general proposition that percentage grants give "no certainty from year to year what the Exchequer may be called upon to contribute". This contribution is fixed centrally and the local authorities can do little to influence it beyond making representation. A further variant is seen to operate where a percentage grant is provided, but it is left to the discretion of the Secretary of State - as in the Rural Water Supplies grants to fix the percentage where applications arise. In both cases detailed central control remains.

The dangers inherent to over-close central control are well enough understood by all concerned and, indeed, efforts have been made to counteract the tendency many times. The Local Government Manpower Committee appointed in 1949 had terms of reference which read:

"To review and co-ordinate the existing arrangements by ensuring economy in the use of manpower by local authorities and by these Government departments which are concerned with local government matters and to examine in particular the distribution/

(7) Rural Water Supplies and Sewerage Act, 1944 and the Water (Scotland) Act, 1949

distribution of functions between central and local government and the possibility of relaxing departmental supervision of local authority activities and delegating more responsibility to local authorities".

The efforts of the Committee were moderately successful in reducing State control, but the certainty remains that the central government has no intention of surrendering its detailed interest in the local services. To do so would go counter to any established principles of administration by delegation. As Sydney Webb remarked with some cynicism fifty years ago:

"The National Government has successively "bought" the rights of inspection, audit, supervision, initiative, criticism and control in respect of one service after another". It is unreasonable to suppose that it would now give up any portion of these rights. At the same time it should be observed that control through grants is only one method available to the State. Even if there were no grants it is highly likely that central control would be exercised at least to some extent.

Thirdly, percentage grants are simple to operate and this is undoubtedly a strong point in their favour. Fifty percent of net recognisable expenditure is a very convenient ratio to use for all concerned. The obvious question that must be asked is : why 50%? Many specific grants are of this amount and it seems logical to enquire whether 60% or 45% might not reflect more accurately the State's interest in the particular service. How, after all, can this interest be gauged with/

with any degree of accuracy for it is an abstract idea and abstractions do not respond to statistical measurement?

The best that can be done is to hazard a guess, or, as the Balfour Committee suggested at the beginning of the century, assume an equal partnership. This assumption is clearly unsatisfactory, for while it provides a rule of thumb, it is inefficient finance.

Grant percentages, it is true, are generally negotiated or at least discussed beforehand with the representatives of the local authorities, but the dominant partner in such discussions must inevitably be the government. There have been instances, notably in the case of the Air Rail Precautions grant, when the local authorities initially refused to operate the service the government was pressing on them till the grant percentage offered to them was raised considerably; opportunity for such action does not often arise. In fact, grant percentages far from representing the measure of the respective interests in the services, are more a measure of the extent to which local interest and willingness to operate the services economically can be maintained.

This willingness or unwillingness implies that in using percentage grants the government may be obliged to persuade the local authorities to develop a new service and that while some of them may respond willingly, others may refuse because of the additional rate burden involved. An example of this occurred in 1957 when, following warnings by the British Medical Association on the danger of lung cancer caused by smoking, the government/

government announced that a 50% grant would be made available to encourage the local authorities to engage in publicity campaigns to bring these dangers clearly before the public. Criticism was at once made in the national press that such a grant was discriminatory since the large progressive authorities would use these powers, while the smaller council, being more preoccupied with the level of rate-borne expenditure, might not. Yet here was, unquestionably, a service which affected every individual regardless of locality.

Considering the characteristics of the percentage grant, then, the general principle suggests itself that grants on this basis, while they may be used as an expedient on the introduction of a new or developing service, should not be continued beyond the shortest time required for a reasonable development of the service throughout the country. They should then merge into a universal grant which would be easier to administer but not before the adequacy of the percentage adopted has been discussed by representatives of the government departments concerned and of the local authorities, with adjustments being made if found necessary. This view requires to be related, however, to the general state of the economy of the country at the time, and to the needs of areas.

Percentage grants, while constituting a serious drawback in periods of inflation may provide the State with a very useful instrument in the carrying out of national economic policy when conditions/

conditions are different. By the use of capital grant specially directed to, say, roads construction, the State could speed up the rate of new capital investment either for the country as a whole or for a particular region. By withdrawing the grant the tempo could be relaxed. The Unemployment Grants Committee of the 1920's administered schemes of this type and lately in 1958 the government's intention was again announced of using public works on such services as (8) roads, education, water and sewerage in relief of unemployment. In March 1959 the Secretary of State intimated a speed-up in public work of this nature valued at £9,675,000, and the Local Employment Bill at present in Parliament provides for grants to local authorities and industrial estates management corporations so as to deal with areas of high unemployment.

This "stabilising device" as Pigou has called it, capable as it is of giving inflationary boosts where they are needed, is indeed a necessary part of the equipment of any State committed, as the United Kingdom has been since 1944, to a policy of full employment, as was seen in 1956 when the Housing subsidies were cut off.

In a similar way we note the use of ad hoc specific grants in dealing with the special problems and needs of particular areas - maritime counties, for example, for capital grant for coast protection works, (9) or the Highlands, (10) where, because of the/

(8) Hansard, 3/11/58.

(9) Coast Protection Act, 1949.

(10) Comprising the counties of Argyll, Caithness, Inverness, Orkney, Ross and Cromarty, Sutherland and Zetland.

the geography of the country and the distribution of the population the difficulty is to "encourage people to live there by making it possible to secure there in return for reasonable efforts, proper standards of life and the means of paying for them". For many years the government has taken the view that these considerations justify expenditure from public funds on a large scale, though it is true that much of this expenditure is not directly distributed through the local authorities.

Discussion of these matters raises an important question of principle which is often overlooked as to the essential rightness of applying the grant system, as a means of economic control. It is arguable that the government, in using the mode of "paying its share" of semi-national services for other than just that purpose, introduces a complicating and distracting element which may well reduce the main efficiency of the system.

Here there is a connection with the system of national taxation out of which these grants flow, for over many years the tax system itself has been regarded as more than simply a device for raising money. Thus, taxation has been consistently used for politico-social as distinct from financial purposes to improve health, to encourage an increasing population, to promote industrial expansion, to control the volume of purchasing power, and even, as Bastable pointed out, to elevate morals. All these aims may be political or social or economic but their justification is in the ultimate well-being of the State. If, therefore/

therefore, in the course of assessing and collecting national taxation the government can conveniently further this end then the use of the tax as a control instrument is acceptable. The State's opportunity for exercising such controls extends to many fields other than just taxation, as in the control of investment through the Capital Issues Committee and the control of credit through the Bank.

These and the use of the grant system, as control instruments are all justifiable as means of attaining the primary aim of government, the common good, to which all other purposes are secondary. Here, too, is a justification for policies of expediency so roundly condemned by writers in the past. Occasions are bound to arise when, in order to achieve a primary purpose, formal principles in relation to the grant system must be sacrificed. It must rest with financial administration to see that in adopting expedients and in using the grant system as a means of control the secondary purposes are not defeated.

11

The principal disadvantages of the percentage grant, namely the lack of certainty on the part of the Exchequer as to what it may be asked to contribute from one year to another and the possibility of extravagant spending which cannot be controlled are overcome to some extent by specific/

UNIT
GRANTS

specific contributions in a different form - unit grant.

The Geddes Committee, reporting in 1921 when economy measures were as important as they are to-day, advised that the percentage grant system be stopped and replaced either by fixed grants (11) or by grants based on a definite unit.

One interesting example of the limiting nature of the unit type of grant is the contribution given towards the employment of blind persons in workshops under the Disabled Persons (Employment) Act, 1944 at 75% of actual expenditure, but with a maximum grant of £100 per head. Another instance is the housing subsidy which, in terms of the various Housing Acts has made great use of the unit principle - £39. 15/- per 3 apartment house per annum for 60 years, for example, under the Housing (Scotland) Act 1952.

These housing grants given over the years under a series of Housing Acts since 1919, have been remarkably successful and illustrate well the political factor behind grant considerations. The provision of houses for the people is a matter in which large sections of the community are personally interested as individuals, for housing shortages, the existence of slums and high rents for low standard accommodation make for individual discontent and misery. For this reason the housing subsidies have repeatedly been the subject of election promises which, in their fulfilment, have left us with a multitude of schemes each attracting grant under a different act of Parliament.

The detailed intention of these different Statutes has varied/

(11) Cmd. 1581. 1921.

varied from time to time but the over-riding aim has been to encourage the provision of houses for the people by offering grants, leaving the local authorities to find the balance of the money. For the local authorities' part this balance has been raised in two ways; partly from rent charges on the tenants of the houses, and partly from a general rate levy on the community to reflect the consideration that the duty to provide houses is a communal and a local one. What the amount of this rate contribution is will therefore depend on the level at which council house rents are fixed and this is a local political matter which has occasioned considerable controversy in recent years.

We are not here directly concerned with this controversy for it is a matter of local policy which has little effect on housing subsidy except to the extent that local councils use this subsidy wisely. As will be seen later, however, such local policies may directly affect the amount of equalisation grant receivable by them - an inequity which should be controlled.

One method of contribution, interesting because it bypasses the "rent" problem, has been the improvement grant or the standard grant of the Housing Acts of 1950 and 1959 respectively. Here the local authority is not the owner but simply passes on to the individual a sum to be used specifically, receiving grant for the purpose.

In July 1956 the Secretary of State announced that the then/

then existing grants would not apply to further houses the tenders for which were received after 31st July, 1956. Instead, a grant for "approved need" houses was fixed at £24, irrespective of size. The present position is that subsidies received for new houses are regarded not as for these new houses alone, but simply as a further contribution towards the pool of Exchequer subsidies.
(12)

As to the unit grants for existing houses, these must of necessity continue to be paid on this basis during the remaining life of the grant, until they fall out one by one.

The school dinner grant, 100% of an approved unit cost, is another illustration of the principle. All local education authorities estimate their unit expenditure on school dinners in the forthcoming year.
(13) These are submitted to the Scottish Education Department where the local unit is examined and approved. Grant is paid on this approved unit and if an authority spends more, the excess will fall on the rates. The use of a local rather than a national unit takes local cost variations into account.

In such grants the more scientific notion of cost per unit replaces the percentage of "net recognisable expenditure" so far discussed. The measure of the central government's share of the cost still remains as a problem - to this extent it will be noticed that we are still dealing with a percentage of cost - but the fixing of a contribution per unit does at least place a limit on what the State/

(12) Report of the Working Party on Housing Subsidies in Scotland (1956) p.1.

(13) Regulation 5 of the Education Authorities (Scotland) Grant Regulations, 1948.

State is asked to pay. A local Housing authority, therefore, will be much more inclined to economic spending in the knowledge that whatever expenditure it incurs, no more than the stated contribution per unit will be forthcoming. The West Midland Study Group of 1955 gave it as their opinion that there were great possibilities for an extension of the unit cost principle. (14)

The unit cost is undoubtedly an attractive idea, though unit grants are no great stimulus to development because of their fixed nature and can never compare with percentage grants for this purpose. Unfortunately it is not all services that have a natural unit or cost which can readily be determined, and in any case local costs vary considerably from one area to another. For this reason - "the present lamentable lack of knowledge about why local costs are what they are" - any extension of the unit grant principle seems at present an unlikely proposition, particularly now that expenditure control has been otherwise secured.

With the exception of the school meals grant, unit grants of the type referred to so far give little consideration to the relative needs of different areas. House building costs in authority A may be considerably higher than in authority B, yet both authorities receive identical contributions from the State.

This drawback can be avoided to some extent by the introduction of some form of statistical "weighting" whereby greater emphasis is permitted to fall on one section of the community as compared to another, so that their relative needs are taken into account. Specific grant given in this way must be calculated according/

FORMULA
GRANTS.

(14) Local Government and Central Control - West Midland Study Group (1955)

according to a formula, and is sometimes referred to as "formula grant". Formula weighting has entered into a number of specific grants in past years and into general contributions like the block or equalisation grants. The weighting element of the formula can, of course, deal with any factor chosen - relative poverty, density of population, unemployment, birth-rates, death-rates or any other social or economic factor which may be selected provided it is not controllable by individual local authorities so as to influence their share in the grant. The difficulty lies in arriving at a comprehensive formula which will make a just comparison between, say, Edinburgh and Airdrie, between highly industrialised Glasgow and the more rural area of Montrose; one can see that there are likely to be a host of factors both social and economic which make conditions different in these localities. It is highly doubtful whether any one formula could accurately allow for all these differences. In general, too, because of the possible conflict of weightings between one grant and another, it is not considered suitable to link specific grants to formulae.

The formula type of specific grant, however, was used effectively though imperfectly in the operation of the education main grant under the Education (Scotland) Act 1946, a specific grant which dwarfed all other grants in its magnitude and which put into perspective the importance which any great modern State must inevitably place on the education of the people.

Under the Act of Parliament referred to the Education (Scotland)/

(Scotland) Fund, a curious remnant of the assigned revenues
(15)
system, was continued, and this fund was maintained until 1959
by annual payments of:

- (a) An amount equivalent to the sums paid out
of the Local Taxation (Scotland) Account
for the year ended 31/3/1929, some £586,842.
- (b) An amount equivalent to sums applicable to
education in Scotland expended from Parlia-
mentary vote for education in Scotland in the
year ended 31/3/1914 - the standard year -
excluding the Royal Scottish Museum grant,
capital grant for the training of teachers,
sums spent on teachers' superannuation and
on the administration of the Scottish
Education Department, in all, £2,306,835.
- (c) 11/80ths of the excess of actual expenditure
from the education vote for England and Wales
over the equivalent figure for the standard
year subject to certain adjustments.
- (d) 11/80ths of the amount estimated to be spent
on teachers' superannuation in England and
Wales.

Under regulations made by the Secretary of State various
heads of expenditure were charged on the fund, and the balance re-
maining was used as grant to educational establishments including
education/

(15) Originating out of earlier Education funds this Fund was
established by the Education (Scotland) Act, 1908, section 15.

education authorities. The principal charge on the fund, however, was the formula grant at present being discussed, namely, main grant.

The grant was based on -

- (a) £6 for each unit of the number of pupils attending schools run by the authority, and "special arrangement" pupils.
- (b) 60% of net recognisable expenditure.
- (c) a deduction of a variable rate in the pound of either standard or rateable value whichever was greater. ⁽¹⁶⁾ This deduction was determined each year by the Secretary of State.

If this formula is broken down into its elements, it will be seen to be a combination of unit and percentage grant specifically directed to education in Scotland but weighted to take account of relative resources throughout the country.

While it was, in fact, in the field of education that the relative needs of individual authorities were first taken notice of in 1917, the deduction of a rate product which was then introduced having been suggested as far back as 1901, the effect of this particular deduction by reference to rateable value or standard rateable value was not primarily an education matter but was designed to withdraw the gains of certain authorities arising in 1948, paying them over to below standard authorities. The "unit" part of the formula provided for those areas where the child population was heavier than others. The percentage element, 60%, is more difficult to justify however, and one might say, of this, as of other percentage grants, why not 61%?

As/

(16) Education Authorities (Scotland) Grant (Amendment No. 4) Regulations, 1954 (S.I. 1954. No. 727 (S.82)).

As we have seen, the principle behind such percentages is not so much to fix on what is a truly representative distinction in terms of figures between central and local government shares of the responsibility, but rather what minimum allocation is seen to produce the desired results without casting an intolerable burden upon the ratepayer. The State cannot normally be expected to allow a greater percentage than will leave the local authorities with an interest in economical spending.

111.

As from April 1959 the use of the Education (Scotland) Fund has ceased and the specific grant for education has been discontinued and now forms the bulk of a general grant based on the old percentage grants which it is left to individual authorities to allocate to the particular services they choose. Sundry small and separate grants have been swept away, "thereby making an effective saving in accounting and auditing manpower centrally and locally". This has not been done without strenuous opposition, notably from bodies such as the National Union of Teachers and the Educational Institute of Scotland which felt that without specific direction local authorities might be tempted to spend less on education and more on other services. This contingency has been provided for by giving the Secretary of State power to intervene so as to control standards if he considers it/

THE
TRANSITION
FROM SPECIFIC
TO BLOCK GRANT

it necessary, but it is inevitable that, initially at any rate, specific direction, like the old assigned revenues, will die hard. Let us examine these difficulties further.

In the absence of specific direction the committees of a local council may be expected to take the narrow view and see their particular service as the most important and the most worthy of financial consideration; each will seek to obtain as much finance provided in their estimates as possible. This could result in a service which, like Children, has been enjoying 50% grant, being prejudiced by the claims of others. It will be for the Finance Committee in the first instance to maintain a balance here, subject to overall review by the council as a whole. A more detailed scrutiny of estimates and a degree of vigorous discussion will follow which, in itself, by obliging all concerned to take a sharper interest, will be a worth-while achievement and one of the principal effects sought after by the Local Government and Miscellaneous Financial Provisions (Scotland) Act 1958.

The Scottish local authorities have not been slow to react to these changes, so that we find one county council, for example, stating its conviction that "expenditure which will not ensure a full return to the rate payers must be ruthlessly eliminated". And again, that "there should be a more general acceptance of the principle that even local authority services should be limited to the willingness and capacity of the rate-⁽¹⁸⁾ payers to finance them".

Beyond/

(18) Fife County Council; circular letter from Convener's Committee to councillors and officials, December, 1958.

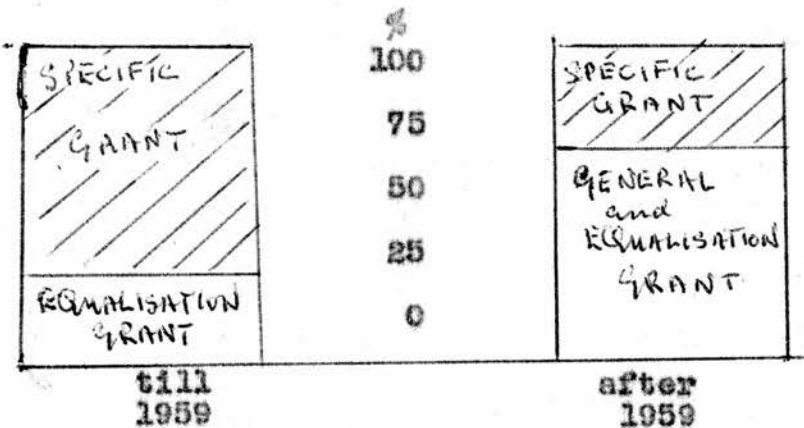
Beyond the council chamber, too, is the wider body of ratepayers to whom, in the end, the council is answerable. The conception of a general grant depends very much upon the interest displayed by these ratepayers. Real public control over public expenditure calls for a more enlightened interest than is often shown at the present time, but it is anticipated that it will be shown if it is seen that standards are not being maintained or that money is being wasted or misapplied.

This heightened interest in local affairs on the part of the ratepayers, which is in itself of primary importance, taken in conjunction with the reduction in administrative time previously devoted to many different grants, is the great advantage of a block grant which in all but a relatively few special cases will be superior to specific contributions. Indeed there is but one respect in which a block grant falls short in a comparison with percentage grants used for similar purposes and that is in its inability to adapt itself freely to costchanges.

The relationship that exists between a specific grant and a block grant is therefore a simple one for the tendency has been for the former to mature into the latter. At this time such a merger is taking place, and a number of grants which like education, have been allocated specifically till now, have been integrated in a general sum, no part of which is to be regarded as earmarked for any particular service.

By these arrangements the whole shape of the grant system/

system has been fundamentally changed, so that what was till now "predominantly a percentage grant system" based on expenditure will shortly become a system dominated by general grant based on population.



This new grant has been widely discussed in the press, and the average ratepayer might be pardoned for thinking that specific grants are therefore no longer of importance. Every so often, as we have noted, there arises a revulsion against them, not because they are bad in themselves, but because they tend to be misused until outside economic circumstances draw attention to their main weakness - they do nothing to discourage spending. This revulsion has been characteristic of the past few years.

Specific grants have always been and will always be an indispensable feature of the grant system in this country; they have their function to perform but outside of that function they have tended in the past to be used without discrimination. Where the percentage grants are concerned their real "vice" is that they are not fixed, and so are not controllable. A percentage grant could be fixed - as, indeed, the roads grants are; the/

the conception of a fixed grant for each service was thought of over sixty years ago and has since been improved so as to contemplate a fixed lump sum for a number of services formerly financed by separate specific grants.

There are two ideas involved here which are so frequently associated together as to be thought of as one, yet they are important enough to be separately distinguished, for this is the point of transition from specific to general contributions. On the one hand there is the choice of having specific grants which are fixed, partly fixed or not fixed - the extent to which they are so fixed will depend on how closely the government desire to secure economy through financial control. On the other hand the decision has to be taken whether to have many such specific grants or one consolidation of them. Putting these two ideas together again we have something approaching the new general grant.

One "block" grant instead of several has obvious administrative advantages, but from such a block grant will still be excluded contributions which, if specifically distributed, either:

- (a) promote a desired development,
- or (b) give assistance to non-uniform services or areas.

This, then, is the proper field of the specific grant,
(19)
and an examination of those in use at present shows that most of them, though not all, fall into one or other of these categories, while there are very few which, like the police grant, are not perfectly capable of being controlled by the government in some way other than by being absorbed in a general grant.

The/

The principle, however, remains. Otherwise controllable or not, unless specific grants can be justified for their promotional value or for some special reason of non-uniformity they should merge into one general contribution. Considerations of expediency on one side there would seem to be no reason why this principle should not now be fully applied.

4. - GENERAL CONTRIBUTIONS.

1

While specific grants are directed to some particular service, general grants are not. This provides them with a new set of primary characteristics, which may be stated at once as follows:

- They (1) provide for one contribution instead of many.
- (2) more readily permit the government to fix its contribution at a determinable figure.
- (3) give greater freedom of choice to the local authorities in applying the money.
- (4) limit the necessity for detailed central control over the spending of the grant.

In addition, being universal contributions of large lump sums they lend themselves particularly well to statistical weighting for selected purposes. In this chapter we shall be concerned mainly with the form of these grants, leaving till later a discussion of their effects and consequences.

The form taken by such general contributions may first be examined by referring back to the block grant introduced THE BLOCK GRANT (1) in 1929. The circumstances of its introduction have already been mentioned; it was an economy measure intended to provide the local authorities with a semi-fixed general sum in place of the specific grants and assigned revenues given hitherto, over which they would have fairly complete control. This general exchequer contribution/

(1) by the Local Government (Scotland) Act 1929.

contribution, the first large-scale experiment in differential State aid, originally conceived in principle in a Minority Report of the Royal Commission of 1896,⁽²⁾ was linked to a formula which attempted to take into account the fact that some authorities were more in need of assistance than others, because of local conditions. Inequalities between authorities had for long been a troublesome anomaly. In the Minority Report referred to the view had been expressed that "in the allocation of Exchequer subventions one would naturally expect that needs and means would be the governing considerations", while in 1902, the Local Taxation Commission for Scotland in their final report had drawn attention to the position of the parishes in the following terms:

"One Scottish parish may, by some fortunate circumstance, have within its boundaries an amount of rateable property out of all proportion to its needs, while another may be composed of property which represents a rateable capacity inadequate to the barest needs of civilisation. For instance, the parish of Temple, in Midlothian, has a gross valuation of over £44 to each inhabitant, while Barvas in Ross and Cromarty has only 9/- per inhabitant and a penny rate will therefore produce nearly 100 times as much per inhabitant in Temple as in Barvas".⁽³⁾

By the end of the 19th century grants-in-aid of the rates generally had become common, indeed necessary; the "equivalent" grant earlier described⁽⁴⁾ was one instance, and, to a considerable extent, the "residue" grant was another. The notion, too, of a fixed/

(2) Cmd. 638. 1901

(3) Cmd. 1067. 1902

(4) see Chapter 2

fixed "block" grant for each service - education, police, poor relief, for example, was slowly growing. These ideas took shape in the conception of one fixed amount for all services which would be used to tackle rates relief by formula.

This was a logical enough development of approach, though there is little doubt that the full advantages for its purpose of a block grant over the then existing specific grants were not immediately recognised. There has always been a tendency to confuse the purposes of the two grant types, a tendency from which we are not entirely free even to-day, for the principle and the practice have commonly been two different things.

Such ideas were put into practice in framing the 1929 block grant formula, a complicated device which attempted to give due weight to four factors: population, rateable value, sparsity of population and unemployment. Though there is little more than an academic interest in the calculation to-day it does contain features that foreshadow the new general grant, and the original working in Scotland of the weighted population formula was as follows:

$$\begin{array}{ll}
 (5) & \\
 (A) & \begin{array}{l} \text{To the estimated population} \\ \text{was added (a) a weighting for each unit} \\ \text{whereby the number of children under 5 per } +p \\ \text{1000 of the population exceeded a normal} \\ \text{figure of 50 per 1000.} \end{array} \quad \begin{array}{l} P \\ \\ \\ \frac{(c-50)}{50} \end{array} \\
 & \begin{array}{l} \text{(b) a weighting for each } \pounds 1 \text{ by which the} \\ \text{rateable value per head of population was} \\ \text{less than the normal figure of } \pounds 12. 10/- \\ \text{per head.} \end{array} \quad \begin{array}{l} \\ \\ \\ +p \frac{(\pounds 12.5-R)}{\pounds 12.5} \end{array}
 \end{array}$$

The/

-
- (5) P = Population as estimated by the Registrar General.
 C = Number of children under 5 per 1000 of population.
 R = Rateable value per head of population.
 U = Percentage of unemployment.
 S = Population per mile of road.
 I = First Intermediate Weighted Population.

- The sum of the population and the weightings for children and rateable value constituted the first intermediate weighted population - I
- (B) The first intermediate weighted population was then further weighted by 10% for each unit whereby the average number of unemployed I $(U - 1.5) \frac{1}{100}$ insured men plus one-tenth of the unemployed insured women exceeded a normal figure of 1.5.
- (C) In counties I was further weighted for sparsity by two alternative formulas -
- (a) If the population per mile of road (S) was less than 100, I was weighted by $\frac{1}{2}$ of 1% for each unit whereby S was less than 200 I $(\frac{200 - S}{200})$
- (b) If S was more than 100, I was weighted by the proportion which 50 bore to S. I $(\frac{50}{S})$

This formula was used to apportion the total sum available to counties and counties of cities in Scotland, £6,127,000, in the first fixed grant period from 1930 to 1933. The Goschen formula of 11/80ths was used to determine the foregoing amount, the total figure of which represented the ascertained losses in 1928-29 by local authorities through derating, together with the discontinued percentage grants.

It had been provided that the ratio of grant to the total of rate and grant borne expenditure was to be maintained, so that for the second fixed grant period an additional £850,000 (6) was required to take account of increased expenditure. Despite the ingenious calculation of the formula and the guarantees for the preservation of the ratio, the grant still had the tendency to lag behind expenditure. To be really effective the contribution would have required to increase continuously, an impossibility for any grant short of a pure percentage grant.

Over the four fixed grant periods, the formula was to be applied to the block grant by gradual steps, first 25% then 50%.

(6) Local Government (General Exchequer Contributions) Act. 1933

50%, then 75%. It was originally intended that by the fifth period in 1947 the whole money would be allocated on the basis of weighted population.

The formula for determining weighted population was changed in 1937⁽⁷⁾ and was ultimately based on:

Population weighted for -
 Children under 5
 low rateable value per head of population
 unemployment
 low population per mile of road (in counties)

- and the allocation of the grant between county landward areas and small burghs was put on a capitation basis. The effect of this 1937 revision in Scotland was to give further weighting to the unemployment and sparsity factors to take account of changing circumstances, and the formula was adjusted as follows:

- (1) The First Intermediate Weighted Population was as before I
- (2) (a) the multiple of 10% which it was meant to reduce gradually was maintained I $\frac{(U - 1.5) 10}{100}$
- (b) an additional weighting of 5% was added for each unit whereby U exceeds 5% + I $\frac{(U - 5) 5}{100}$
- (3) The First Intermediate Weighted Population weighted for unemployment formed the Second Intermediate Weighted Population = W
- (4) In counties W was weighted for sparsity by two alternative formulas:
- (a) If the population per mile of road was less than 100, W was weighted by the percentage represented by the proportion which the difference between 230 and S bore to 200 W $\frac{(230 - S)}{200}$
- (b) If S was more than 100, W was weighted by the percentage represented by the proportion which 65 bore to S W $\frac{65}{S}$

Some/

(7) Local Government (Financial Provisions) (Scotland) Act 1937.

Some idea of the relative influence of the factors making up the total "weighted population" in the original and the revised formulas can be obtained from the figures given below which refer not particularly to Scotland but to the country as a whole:

	1st Grant period millions	After 1937 revision 3rd Grant period millions
Population	39.5	40.8
Weighting for children	24.3	15.4
Low rateable value	15.2	13.2
High unemployment	8.5	14.9
Abnormally high unemployment	-	1.7
Sparsity of population	13.8	14.8
	101.3	100.8

The Block grant had many good features. For one thing all authorities, and consequently every individual, had a share in it since population was its essential measuring rod, and its spending was not subject to State control and inspection; the contribution was not affected by what a local authority spent.

On the other hand, since population was the principal criterion, those authorities which had a declining population were liable to find themselves with a reducing contribution and an increasing rate burden. Furthermore, the loss to local authorities by derating was not equalised, for some areas were more industrial than others; in any case, with rising costs these losses became notionally progressively greater than those assumed in 1929 in calculating the available global sum. Then too/

too, rateable values, another factor in the equation, were not and could not at the time be based on uniform valuations everywhere, and it was as much this objection as any which led to the substitution of Equalisation Grant in 1948.

There were many people who felt that the block grant was worth continuing provided that modifications were made to the formula.

11

The Exchequer Equalisation Grant introduced EXCHEQUER
EQUALISATION
GRANT. in 1948 was designed to assist authorities whose rateable value per head of weighted population fell below the national average. In its essentials the idea was a straightforward one. First, it was necessary to calculate the national average of rateable value per head of weighted population. Secondly, compare with this the rateable value of each authority calculated in the same way. Thirdly, credit these local authorities with rateable value equal to their deficiency, and pay them grant equal to the rates on that credited value, having regard to the actual relevant expenditure of the authority. In effect, the State becomes a ratepayer of such receiving authorities to the extent of the deficiency. In 1955-56, over £10 million or approximately 8% of total net expenditures was paid out to receiving ⁽⁸⁾ authorities in Scotland.

As before, weight was given to population for children of/

(8) Rating Review. 1956.

of school age and for sparsity, but now, as will be seen, the emphasis has shifted from population to rateable value.

At first, in 1948, the average fixed for Scotland was that arrived at for England and Wales increased by 25% to take account of the different levels of valuation, but, as has been pointed out, this basis was criticised, and in 1954 the 25% was discarded in favour of the old Goschen equivalent, and certain transitional grants were given based on the year 1952-53. Thus, if the amount chargeable by a local authority to rates in that year under the Act of 1954 was greater than it would have been under the 1948 Act then the authority received a transitional grant to the extent of the notional loss. In this way Scotland parted company with the original conception of the grant.

These and further adjustments to the original plan were made, after investigations into its working, by the Local Government (Financial Provisions) (Scotland) Act, 1954, and the Valuation and Rating (Scotland) Act, 1956. For one thing due allowance was made for these authorities which, as a matter of housing policy, kept their rents at a low level and thus attracted more grant. For another an alternative method of determining the Scottish aggregate of exchequer grant was provided, as follows:

There is first calculated the "notional relevant local expenditure for Scotland" - a sum which bears the same proportion to relevant local expenditure in England and Wales as the weighted population in Scotland bears to the weighted population in England and Wales.

$$\frac{WP(S)}{WP(E)} \times RLE(E)$$

Next, the sum is ascertained which bears the same proportion/

proportion to the rates burden for England and Wales (local expenditure less equalisation grant) as the population $\frac{P(S)}{P(E)} \times \frac{RE(E)}{RE(S)}$ in Scotland bears to the population in England and Wales.

This "notional rates burden for Scotland", deducted from notional relevant local expenditure for $NRLE(S) - NRB(S)$ Scotland gives the notional exchequer grant for Scotland, and the aggregate of Scottish exchequer grant is the $\frac{NEEG(S)}{NRLE(S)} \times RLE(S)$ amount which this bears to notional relevant local expenditure in Scotland of the relevant local expenditure in Scotland.

The present sum payable each year to Scottish local authorities amounts therefore to 11/80ths of the amount paid as equalisation grant to local authorities in England and Wales less the total of any transitional grants paid to local authorities in Scotland, provided this sum is greater than the amount which bears the same proportion to the relevant local expenditure of all burghs and landward areas in Scotland as the notional exchequer grant for Scotland bears to the notional relevant local expenditure for Scotland. ⁽⁹⁾ The latter method is now generally used.

This sum is divided between those authorities whose Adjusted Rateable Value (the actual rateable value scaled up or down by the substitution in the case of local authority houses of the average rateable value of all such houses in Scotland for the year in which the Valuation and Rating (Scotland)/

(9) the amount calculated under sec. 26 of the Valuation and Rating (Scotland) Act 1956.

(Scotland) Act 1956 was passed for the actual value shown in the Valuation Roll) is less than the Standard Rateable Value. Authorities with an Adjusted Rateable Value greater than the Standard receive no grant.

The Standard Rateable Value is found by multiplying the Weighted Population by a figure known as the Governing Factor fixed by the Secretary of State at a level which will ensure that the total grant available is absorbed by those authorities which are entitled to receive the grant. This Governing Factor is mathematically calculated in several stages as follows -

(10)

First Stage.

- Step 1 Find E, P, V and £ for all authorities
Evaluate $l = \frac{E}{E - G} \times \frac{V}{P} \times \frac{V}{£}$ to find l (equation A)
- Step 2 Eliminate from E, P, V and £ all authorities whose adjusted rateable value per head of weighted population is greater than l, as evaluated above. Evaluate equation A with reduced values of E, P, V and £.

Step/

-
- (10) G = 11/80ths of Equalisation grant in England less Scottish transitional grants, or amount calculated under the Valuation and Rating (Scotland) Act 1956.
 E = total relevant local expenditures of qualifying authorities.
 P = total weighted populations of qualifying authorities.
 V = total adjusted rateable values of qualifying authorities.
 £ = total adjusted produce of £1 in the £ of qualifying authorities.
 l = estimated governing factor per head of weighted population at first stage.
 a, a^1 , etc. = adjustments to l.
 G^1 , G^{11} , etc = total equalisation grants produced by applying l, $l+a$, etc.

- Step 3. Eliminate from reduced values of E, P, V, and £ all authorities whose adjusted rateable value divided by weighted population is greater than reduced 1. Evaluate equation A with further reduced values of E, P, V, and £. This will probably produce a value for 1 which indicates that all remaining authorities are qualifiers. If not, the process must be repeated as a fourth step.

Second Stage.

- Step 1. Calculate the equalisation grants which would be payable if the value of 1 produced by the last step of the first stage were the governing factor per head of weighted population. Call the total of the equalisation grant so produced G^1 .

- Step 2. Evaluate $\frac{E \times V}{PI - V + £} \times \frac{a}{1+a} = G - G^1$ to find a^1

Calculate the total equalisation grants which would be payable using $(1+a)$ as governing factor per head of weighted population. Call the total G^{11} .

- Step 3. Evaluate $\frac{E \times V}{P(1+a) - V + £} \times \frac{a^1}{1+a+a^1} = G^1 - G^{11}$ to find a^{11}

Calculate the total equalisation grants which would be payable using $(1+a+a^1)$ as governing factor per head of weighted population. Call the total G^{111} .

The usual, but not necessarily invariable result of these calculations is that, if G^1 is greater than G, G^{11} will be less and G^{111} greater than G. If G^1 is less than G, G^{111} will probably also be less, and if payments are at a provisional stage, the calculations can probably stop at G^{111} , since the "error" will probably be less than £2 in £10,000.

The sum required to make up the Adjusted Rateable Value to the Standard Rateable Value is the Rateable Value Credited, while the net amount which would fall on rates if no equalisation grant were available is the relevant Local Expenditure.

The/

The apportionment of the grant to an individual authority is made by dividing the relevant Local Expenditure by the sum of the Rateable Value Credited and the product of a rate of £1 in the pound based on the Adjusted Rateable Value. The dividend is the Relevant Fraction which, when multiplied by the Rateable Value Credited gives the Equalisation Grant due.

This is distributed to counties of cities, counties and the large and small burghs on the basis of provisional calculations adjusted when more accurate figures become available. Experience has shown that in Scotland there is a tendency for these local authorities to over-estimate relevant local expenditure by an average of 2%⁽¹¹⁾, so that in order to avoid taking back equalisation grant paid on such over-estimates provisional and final payments become necessary. To preserve the income flow to authorities payment has been spread over six instalments during the year - as from May 1959, payment will be made in monthly instalments. The equalisation grant to any county council is apportioned by the Scottish Home Department between that council and all district councils within the county on the basis of the expenditure applicable to the various councils which is included in the total of relevant local expenditure.

An actual example of the working of these calculations is now given illustrating the distribution of the grant in the case of a small burgh. Similar calculations would apply for a large burgh or indeed for a county landward area if the county's additional weighting figures were included.

Small/

(11) In England and Wales the average is nearer 5 per cent.

(12)
SMALL BURGH.

		Second calculation of advance for 1956/57
1.	<u>Weighted population:</u>	
	(a) estimated population at 30th June	2,744
	(b) estimated number of children at 30th June	748
	(c) additional weighting for sparsity	-
	(d) additional weighting for rapidly increasing population	-
	(e) weighted population (a)+(b) + (c)+(d)	3,492
2.	Governing factor per head of weighted population as provisionally calculated	£ 10.57465
3.	Standard Rateable Value (item 1 (e) x item 2)	36,927
4.	Adjusted Rateable Value (see item 12)	35,397
5.	Rateable Value Credited (item 3 minus item 4)	530
6.	Adjusted Produce of a rate of £1 in the £ (see item 13)	36,162
7.	Expenditure on burghal functions	16,208
8.	County Requisition	22,636
9.	Adjustment to County Requisition on account of balances from 1953/54 or earlier years.	-
10.	Relevant Local Expenditure (item 7 + item 8 + or - item 9)	38,844
11.	Exchequer Equalisation Grant for 1955/56 and advances for 1956/57 and 1957/58 (item 10 multiplied by item 5 divided by the sum of items 5 and 6).	561

12. Adjusted Rateable Value:

(a) number of local authority houses in Valuation Roll as at 16th May	495
(b) average rateable value of local authority houses in Scotland for previous year	£ 26,2581
(c) rateable value of houses at (a) to be used in calculating Exchequer Equalisation Grant (a x b)	12,998
(d) rateable value at which houses at (a) were entered in the Valuation Roll as at 16th May	15,168
(e) adjustment under section 4 (1) of the 1954 Act (c - d) or (d - c)	2,170
(f) rateable value at 16th May	38,567
(g) adjusted rateable value (f+ or - e)	36,397

13. Adjusted produce of a rate of £1 in the £

(a) produce of a rate of £1 in the £	38,332
(b) adjustment under section 5 (2) of 1954 Act (item 12 (e) above)	2,170
(c) adjusted produce (a+ or - b)	36,162

For the purpose of later discussion of the equalisation grant a more convenient formula than the foregoing will be useful, and/

and this can be simplified, as follows:

$$EEG(S) = \frac{RLE}{CRV + ARP} \times \overset{(13)}{CRV}$$

These are calculations which in their complexity recall the comment of the Royal Commission of 1896 with regard to the old assigned revenues that "only those whose official duty it is to be constantly threading the maze are able to carry in their memory the clue to its intricate convolutions". Since the grant is payable on the basis of provisional calculations, adjusted in the following years when final figures become known, it would be almost impossible for a chief financial officer to make a proper check on the correctness of the payment, while it is likely that not a few of these officers have no very clear understanding of the working of the grant.

In Scotland it might be agreed that the retention of the Goschen formula even as a safeguard is no longer justifiable. The notional rates burden method of calculating the Scottish pool is without doubt a far more realistic approach to the achievement of uniformity between Scotland and England and Wales but it is still an artificial method and it does introduce still further complication into a formula which is already involved enough.

Simplicity in grant arrangements is unquestionably an end to/

-
- (13) EEG(S) = Exchequer Equalisation Grant in Scotland.
 RLE = Relevant Local Expenditure.
 CRV = Credited Rateable Value.
 ARP = Adjusted Produce of £1 in £1 of rateable value.

to be sought after but mere complexity in itself would not necessarily be a serious criticism of the grant provided it was otherwise satisfactory; a digital computer could, after all, be programmed to deal with far more complicated formula calculations than these in the minimum of time. But, does the grant work satisfactorily?

Looked at in its pure form as it now operates in England and Wales one would say that it does. Since 1948 it has been the subject of the most rigorous examination. In 1951 it was found, for example, that "the best that can be said is that for authorities with average or below average resources in terms of rateable value it eliminates those disparities in rate poundage which resulted from inequality in rateable value". In 1952 we find the treasurers of non-receiving English county boroughs testing the grant on its ability to ensure that "two citizens of equal substance in different parts of the country have to make an equal contribution for the same local services", and finding that "no system of grant can import the ability to pay principle into the existing rating system". If living in houses of similar rental value were substituted in place of "equal substance" then the Minister's desire would have been more capable of achievement". Since then, the Edwards Committee and later the Lees group have examined the grant and made suggestions towards its improvement. Since then, too, the necessary revaluation has been set in motion, so that within the next/

(14) Accounting Research, Vol. 2. No. 3, 1951 - The Effects of the Local Government Act, 1948.

(15) A curious conclusion considering that this is the very purpose of any grant.

next few years with rateable subjects uniformly valued throughout the country the original aims of the grant, namely the plain equalisation of resources should be much more closely approximated.

111.

For the time being the equalisation grant has been retained in Scotland as a separate contribution on its existing basis, subject to review when the results of the revaluation which is to take place in 1961-62 are known. The title is not at present to be altered to that of "rate deficiency grant" as in England and Wales. ⁽¹⁶⁾

GENERAL
GRANT

At the same time there has been introduced a new general grant to take effect from 16th May 1959.

As has been earlier remarked, this general grant takes ⁽¹⁷⁾ the place of a number of specific grants, the most important of which was for education. Accordingly, the aggregate amount having been fixed, the grant is to be calculated in the first instance for each education area, counties and counties of cities, and paid to rating authorities throughout the country, the formula allocation to each county being apportioned among the rating authorities within the county according to their rateable or standard rateable value, whichever is the higher, for the immediately preceding/

(16) The Edwards Committee in 1954 had suggested "rateable value deficiency grant".

(17) See Appendix B.

preceding year.

The distribution of the grant in Scotland will be according to formula and will be governed by the weighted population of the areas involved, as follows:

To the civilian population

Add (1) number of children under 15 years.

(2) where the proportion of landward population to total population is

85% and over add 75% to civilian population

75% and under 85% add 50%

70% " " 75% " 25%

60% " " 70% " 15%

50% " " 60% " 5%

Under 50% " nil

(3) where the number of pupils in education authority primary and secondary schools per mile of road is:

Under 2.5 to 1 add 50% to the civilian population.

2.5 and under 3.0 to 1 add 47½% to the civilian population.

3.0	"	"	3.5 to 1	"	45%	"	"	"	"
3.5	"	"	4.0 to 1	"	42½%	"	"	"	"
4.0	"	"	4.5 to 1	"	40%	"	"	"	"
4.5	"	"	5.0 to 1	"	37½%	"	"	"	"
5.0	"	"	5.5 to 1	"	35%	"	"	"	"
5.5	"	"	6.0 to 1	"	32½%	"	"	"	"
6.0	"	"	6.5 to 1	"	30%	"	"	"	"
6.5	"	"	7.0 to 1	"	27½%	"	"	"	"
7.0	"	"	7.5 to 1	"	25%	"	"	"	"
7.5	"	"	8.0 to 1	"	22½%	"	"	"	"
8.0	"	"	8.5 to 1	"	20%	"	"	"	"
8.5	"	"	9.0 to 1	"	17½%	"	"	"	"
9.0	"	"	9.5 to 1	"	15%	"	"	"	"
9.5	"	"	10.0 to 1	"	12½%	"	"	"	"
10.0	"	"	10.5 to 1	"	10%	"	"	"	"
10.5	"	"	11.0 to 1	"	7½%	"	"	"	"
11.0	"	"	11.5 to 1	"	5%	"	"	"	"
11.5	"	"	12.0 to 1	"	2½%	"	"	"	"
12.0 to 1 and over				"	nil	"	"	"	"

For the purpose of this weighting the Secretary of State

may/

may determine that any sea route between two places in a county may be treated as a county road.

The additional weightings (2) and (3) are designed to reflect the position that "the cost of educational and other services provided for a predominantly landward population is relatively greater than the compact urban units", and that educational costs, which after all form a substantial part of the total local authority budget, are specially high in sparsely populated area.

It is intended to fix the total amount of the general grant for periods of two to three years in advance, though the sum to be paid out in each year of the period will not necessarily be the same. This sum was to be fixed after taking into consideration:

- "(a) the latest available figures of relevant expenditure by local authorities on the services involved.
- (b) such factors beyond the control of local authorities and occurring generally in Scotland as are expected to increase or reduce substantially the demands on the local authorities in respect of these services during the grant period.
- (c) the need for development of the services, and at the same time the general state of the economy, as determining the amount of improvement which can properly be secured during the period. (18)

Following these principles the amount of the general grant was duly fixed by the Secretary of State at £50,125,000 for 1959-60 (£52,075,000 for 1960-61). This sum was arrived by adjusting the estimated total of relevant expenditure for the first/

(18) Local Government Finance in Scotland. Cmnd.208. 1957.

(19) by the General Grant (Scotland) Order 1958.

year of the grant period as shown below:

	1959-60
	£
Education	69,672,000
Health Services	5,652,000
Fire	2,576,695
Child care	1,787,982
Town Planning	66,000
Road Safety	22,000
Traffic Patrols	36,000
Registration	242,000
Physical training and recreation	9,000
School Crossing Patrols	141,214
Welfare services for the Disabled	<u>30,000</u>
	<u>80,234,891</u>

This total, increased to take into account expenditure on compulsory acquisition of land (in respect of which legislation was at the time pending), and certain capital expenditure on accommodation under the National Assistance Act 1948, gave consideration to foreseen future variations in the level of costs, prices and remuneration and possible fluctuations in the demand for the services.

After the addition of a further sum to assist contributions made by education authorities to the Scottish Universities, the grant figure relative to this aggregate sum was determined/

determined at £49.659 millions (representing approximately 61% of relevant expenditure).

To this basic figure was then applied certain other non-recurrent adjustments, as follows:

	<u>£ million</u>
Grant as ascertained	49.659
<u>less</u> net deduction to offset rerating income	<u>1.500</u>
	48.159
<u>Add</u> compensation for	
(a) reduction in equalisation grant	1.900
(b) discontinued minor grants	<u>.065</u>
	<u>50.124</u>
- which was rounded to	<u>50.125</u>

After reduction in accordance with Part 1 and adjustments in accordance with Part 11 of the 3rd Schedule of the Local Government and Miscellaneous Financial Provisions (Scotland) Act, 1958, this aggregate is apportioned among the authorities in the manner indicated. An illustration of such an apportionment is given in Appendix E. The Part 1 reduction referred to, which is shown in that Appendix, is intended to take account of certain central expenditure on, for example, Fire Service Colleges and on the Children service which had hitherto been recovered from the local authorities by deduction from the respective percentage grants. The adjustment under Part 11 is in respect of certain "reckonable/

expenditure" by individual local authorities which it is thought should properly be pooled and shared out amongst all authorities, the chief instance of this being expenditure on further education.

The introduction of general grant will inevitably leave some rating authorities better and some worse off in terms of State aid, and this despite the fact that commitments will have been entered into and budgets prepared on the assumption that existing conditions would hold good. To meet this difficulty it is provided that initially the gains of certain authorities will be applied to making good the increase in rate burdens of other authorities by a system of transitional payments.

TRANSITIONAL
PAYMENTS

The amounts of such increases will be calculated by reference to a standard year, 1957/58, and certified. In the first year of the new system the whole of these increases will be made up from the gains of other authorities. In the second year, nine-tenths will be made good, and after three further intermediate steps the transitional payments should come to an end by the sixth year. By then all authorities should have settled down to the new grant conditions. These transitional arrangements may require review when any alteration in the incidence of rate burdens as between authorities consequent on the revaluation in 1961-62 becomes apparent.

IV.

Now, taking a broader view of general contributions such as those with which we have so far experimented, it will be observed that they contain two fundamental and quite different ideas. On the one hand, there is the desire to generalise specific grants - particularly percentage grants - into one controllable amount which may be fixed, semi-fixed or not fixed at all; this has been done in the past as an economy measure on the part of the government, and theoretically the idea of one grant instead of many is an attractive one for it has the merit of simplicity. On the other hand, there is the intention to give special assistance where the need for one reason or another is greatest. Under a general contribution, too, central control may be replaced to a considerable extent by public control by the local electorate, which is politically and administratively a desirable feature, for it is a stimulus to local interest.

The old block grant of 1929 attempted to achieve both generalisation and equalisation with one contribution; present-day practice favours a distinction not only between the two forms of assistance but between the type of equalisation, namely of resources and of needs.

The application of the principle of resources equalisation, well established by now in England and Wales, is not wholly satisfactory where Scotland is concerned. A further problem that remains is the equalisation of local needs. The relative needs of individual local authorities are so diversified that it cannot yet be said that/

that "two citizens of equal substance in different parts of the country have to make equal contributions for the same local services", and until a more efficient "needs equaliser" than the weightings we have at present is introduced this ideal of uniformity will not be achieved.

It is hard to see how a truly effective equaliser of needs could be devised; a multitude of factors would require to enter into it, many of them unmeasurable. The prime cost of land, labour and materials may be naturally higher in one district than another, while no two authorities will ever have an exact correspondence in their local characters and commitments. Nor, indeed, would this be in any way desirable even if it were possible, for it is of the essence of local government that it is local and individual. If local services cost a citizen more in authority A because they are better services, that is not a matter for criticism. If they cost more, however, because, say, of A's geographical situation as compared to other areas, then there is a case for making some compensating adjustment.

It is in the solution to this "needs" problem and to the difficulty of applying an English resources equaliser to Scotland that future refinements of the Scottish grant system will be found. And even with such refinements it will still be no more than a compromise, for no formula can give us more than a close approximation in this instance. Are we prepared to be content with a close approximation and a compromise in return for retaining our existing arrangements? If we are not, we must be prepared to throw the rating system itself on the scrap heap.

5. - The Mechanics of Grant.

(I)

Every grant implies a tax of equal amount from national sources. The corollary of this is that for every such NATIONAL TAXATION tax there will be another from local sources, save in the case of a 100% grant. Whether these taxes are national or local the effect is to redistribute income by transferring it from one sector to another.

In less generalised terms, if it is assumed that in Scotland the Police service will cost £10,000,000 in the forthcoming year, £5,000,000 of this will be paid for by private citizens as taxpayers, while the other £5,000,000 will be paid for by private citizens as ratepayers; this will be the case if for the present we ignore the corrective of equalisation which simply represents an attempt to reconcile the two tax bases used. This being so, it is now necessary to consider what constitutes an acceptable tax.

It may be said at once that our British system of national taxation involves not one tax but a tax structure... a conception which has been steadily developed over the past hundred years. Arthur Young, an 18th century contemporary of Adam Smith writes: "If I were to define a good system of taxation, it should be that of bearing lightly on an infinite number of points, heavily on
(1)
none." No single tax has all the virtues we would look for; purchase tax, for example, falls on everyone both rich and poor with/

(1) Political Arithmetic. (1774) A. Young.

with equal force, while estate duty falls on the very rich with the most crushing incidence, but leaves the comparatively poor untouched. A single tax, though theoretically attractive for its administrative simplicity, is held to be dangerous because in fact of its uniqueness. However carefully devised, the possibility of unfairness to certain sections of the community has to be reckoned with; alone, it is wide open to criticism.

A combination of taxes, judiciously administered, gives a compensatory effect which makes the system highly flexible, and the subjects chosen to be taxed will be selected so as to contrive as wide a diffusion of incidence as possible. Some idea of this structure is obtained in examining the revenue flow into the Consolidated Fund, out of which grants to local authorities are paid.

	£ million	(2)
Income Tax	2147	
Surtax	171	
Profits Tax	274	
Death Duties	195	
Customs Duties	1285	
Excise Duties	865	
Motor Vehicle licences	104	
Stamp Duties	68	

Each of these State taxes, some of which are direct and others indirect, is capable of being adjusted in the Finance Acts at regular short intervals to reflect changing government policies, and their collective incidences fall on a multitude of taxpayers continuously at different points, ensuring so far as possible an even distribution of liability throughout the country.

In/

In general, this structure fulfills certain requirements which have been arrived at over the years as the result of experiment and discussion, requirements which are now considered to be basic in any properly devised tax system in this country. First, the taxes within the structure should be each effective for their particular purposes, that is, they should efficiently tax the subject on which they fall. Thus, in the classic phrase, "income tax is a tax on income"⁽³⁾, and nothing else. At the same time, as we have already seen, there is held to be no reason why the tax should not, if required, have some secondary function such as, for example, the discouragement or promotion of activities sought to be discouraged or promoted as a matter of national policy.

Again, each tax should be universal within its class. All citizens comparable within the class should bear its impact without distinction. Great Britain has been fortunate in its Inland Revenue department and in a fiscal administration which ensures reasonably uniform rules of valuation of subjects to be taxed.

Thirdly, and of great importance, taxation should be based so far as possible on the taxpayers' ability to pay, and when this is so a tax is said to be progressive. Adam Smith had something like this in mind when he asked of a tax that it should be equal as between persons, but it was not for a century after the "Wealth of Nations" was published that the progressive ideal in its modern form/

(3) Lord MacNaughten in *London County Council v. A.G.* (1901)

form was fully appreciated. Although there exists nowadays a variety of refined explanations of this ideal it may still perhaps be most convincingly demonstrated by reference to neo-classical economic theory. As incomes rise the marginal utility of further money increments falls, calling for less of a sacrifice when tax is applied. Thus, a tax should bear most heavily on those best able to pay it; this principle is part and parcel of such levies as the income tax, surtax and estate duty.

Moreover, the argument goes on, the tax structure as a whole should be based on "ability to pay", and while the progressiveness of some of its taxes is offset by the regressiveness of others, the general effect should be one of progressiveness. This proposition will be adopted for the purpose of the present thesis, chiefly because it is a generally acceptable one, though it is fair to add that progressive taxation could be objected to in principle on a number of not unimportant grounds.

The chief difficulty is in determining the precise degree of progressiveness which, at any time, is to operate. In recent years the United Kingdom has experienced higher levels of progressive taxation than most countries, and this feature is of some significance to our subsequent discussion. A recent comparison of this position with that in the United States, for example, has yielded the following figures of marginal income tax rates on the next unit of income earned in the two countries in 1955/56.⁽⁴⁾

(4) Income Taxes and Incentives to Work, by G. F. Break, in the American Economic Review. September, 1957.

Incomes		Marginal tax rates as percentages.	
U.K.	U.S.A.	U.K.	U.S.A.
£	\$		
600	= 1680	26.25	20
800	= 2240	33.5	20
1500	= 4200	33.5	22
2025	= 5670	52.5	26
6000	= 16800	75.0	50

In considering degrees of progressiveness, of course, "precision" is an inappropriate word - there can be none. Nevertheless, there should be some measure of control exercisable over total incidence, for what may be convenient and best at one moment of time may not be so at another. The idea of "ability to pay", important as it is to a discussion of grants, is not, therefore, free from ambiguity.

"Theories of taxation have been formed by first taking things as they were, and then searching for the principle on which the system was founded." (5) Our approach to these matters has always been practical and experimental, but the justice and rightness of all these requirements seems nowadays so manifest that we tend to accept them as commonplace; in fact they are the outcome of a great deal of careful thought, and incorporated in the overall tax structure which has been described they provide the government with a fiscal instrument/

(5) Report of the Departmental Committee on Local Taxation, 1922. Cmd. 1674.

instrument of considerable worth. Used in conjunction with planned budgetting such an instrument is capable of a great deal more than simply raising money for the needs of the State.

II

A local tax, on the other hand, while conforming in very general terms to such ideals, does not bear a true comparison with the national tax structure, for it is designed for a different LOCAL TAXATION purpose, namely to raise money to pay for that part of the services which is considered to be of purely local benefit. It is, however, possible to say what is expected of a local tax in general, and then to enquire whether the specific form of local tax in this country, the rate, meets these expectations.

A local tax should be local; it should serve to raise money for local purposes within the area to be served. It should not overlap into other localities and it should not conflict with State taxes. In the Netherlands, for example, some thirty years ago, there existed side by side a local income tax and a national income tax both based on the same valuations, which resulted in considerable confusion of interests until the system was finally abolished in 1929.

The local tax should be capable of a reasonable amount of expansion. One based upon, say, bicycles, would obviously not meet this requirement since there would very quickly appear an upper limit to the amounts that could be raised in this way. What is required, above all, is a tax which will bring in all the revenue that is needed, not/

not merely now in the present, but twenty years hence when prices have all risen... a flexible tax which is uninfluenced by long-term inflation. Yet in itself it should be fairly stable so that its yield can be anticipated from one year to another, in good times and bad with some degree of certainty.

If, on the other hand, our ideal local tax was one based on incomes, differences between richer and poorer authorities would be accentuated. Those persons being highly taxed in one area would tend to move on to another. For this reason a local tax which bears fairly equally upon all local taxpayers is more useful than one which is steeply progressive. Indeed, it has been suggested that a certain amount of regression would be a desirable feature, a point which will be examined further in a later chapter.

In short, then, what we are looking for is a local tax which is individual and always effective, capable of expansion yet stable, and which, if anything, displays slight regressive features. In addition, it should be conveniently and cheaply collected and administered, and its incidence should fall no more heavily on taxpayers in one area as compared to another. These are ideals which are unlikely to be found in any one tax. We are looking for perfection in a single tax and the experience of national taxation has shown this to be impossible of attainment.

The problem is seen in a quite different perspective, however, if we cease to think of local taxation, or at any rate that part of it which is raised to finance the semi-national services, as something separate and apart, and regard it instead as simply an element in the total national tax structure, to which it contributes its own measure of compensation.

There/

There is of course no conscious design in this unity, nor any basis in law in the sense that regard is had to it in national budgetting. Yet the validity of the assumption can be tested by reference to the individual, who cares little whether the sum he pays each year for services is called a local or a national tax, but is concerned rather with the combined incidence - the net effect on his purse in comparison with every other taxpayer.

In the United Kingdom there is but one local tax - the rate, and if for the time being we discount the differences in point of detail between rating practice in Scotland and the rest of the country, the basis of the rate is the value of the real property within the rating authority's area. Such an authority, arriving at a total annual valuation of its real property may raise the sum required to meet the forthcoming year's budgetted expenditure by charging that expenditure proportionally on the occupiers of the properties.

As a method of local taxation the rate used in this way is a very old one; in Scotland it can be traced back as far as the 15th century. It has stood up very well to the demands placed upon it over the years and to a large extent it lives up to the ideals we have laid down for a good local tax. In general it displays a local individuality combined with the other properties postulated of stability and the ability to raise large sums of money efficiently and reasonably cheaply. The rating system in its modern form has been shown to work - indeed for its purpose it is doubtful if any other tax we could think of would work as well; the same cannot be said of any other system as yet untried.

Against/

Against all these advantages the rating system has many obvious drawbacks which have come into sharp prominence particularly in recent years when the demands on the system have grown so enormously. "Rabid inflation can soon turn into an antique a venerable institution (7) that has withstood the economic changes of centuries", says a critic.

Firstly, being a tax on real property, the value of which increases much more slowly than the total national income it is in-elastic in its yield. As costs keep rising rates everywhere go up and since they are the only local tax they attract to themselves the brunt of public criticism. Eventually, with rates at levels well over 20/-(8), in some cases 30/- in the pound, a loss of population through migration to lower rated areas may result. Whether or not it is possible to determine the limit of taxable capacity for any local area it is likely that in some authorities this limit has been closely approached in recent years.

Secondly, rates are unduly regressive. Curiously, moderate regression was a quality we demanded of a local tax, but a quality can become a serious disadvantage if it is overdone. This regression can clearly enough be imagined if we consider the effects of requiring the local authorities to perform the same local services as at present without any State aid whatsoever. Rates would rise dramatically though there would be a drop in national taxation, and the poorer ratepayers would be the most seriously affected. To take another example, a rich bachelor may occupy a six-roomed house like his poorer/

(7) The Economist, 7 January, 1956.

(8) 1956/57 - Rating Review.

Ayr County Council	-	30/7;
Dumbarton	do.	30/9
Inverness	do.	30/1
Lanark	do.	32/-
Stirling	do.	34/4

poorer neighbour who has a family of four children and is thus obliged to live in a roomy home. Both pay the same rates and the family man is penalised.

Considered in isolation these are serious defects and further examples are not hard to find. Rates are, to a large extent, a tax on housing, a service which the State has otherwise seen fit to subsidise, and this seems anomalous... just as much so as Schedule A income tax which does the same thing. Again, in the absence of State equalisation the rate level will vary widely from one area to another because of differing local costs and differing volumes of rateable value. Contrast Wetzland's product of a penny rate, £95, with Lanark's £11,138. Then, too, local populations are never of the same density in any two places, which will have its obvious effect on rateable value per head of population. Nor are all areas of the same character; one burgh may be industrial, another residential, and a third may base its economy on the holiday trade. All have quite different needs which destroy any ideals we may have as to uniformity in rating.

Equalisation devices have to be relied on to overcome these variations, and while it might be said that all grants are equalisers in a sense, this equalisation is mainly effected through equalisation grant, and, to a considerable degree, general grant. Rate resources equalisation is of importance, but even if the rates were not used as a local tax base, other factors would still require equalisation.

Yet with it all the rate is fundamentally a sound local tax and one which is traditional to British local government. It has been unfortunate in recent years in being the subject of much loose thinking and adverse comment. Too often, rising rates have caused the rating/

rating system to be condemned out of hand, when in fact it is inflation itself which should be condemned. This is to put the cart before the horse. In the past, faith has been placed in the rating system, partly out of political expediency because of its highly "local" nature, partly out of financial expediency because it existed, ready made, and while it would be wrong to proceed to justify "things as we find them", these arguments still hold good. But if we decide that the rates shall be our local tax then we must be prepared to arrange for inter-authority equalisation.

The purpose of our analysis up to now has been to suggest that no single tax, national or local, is perfect. The shortcomings of the rate as a local tax are so apparent because there is no other local tax. "To disguise the burden is, so far as sacrifice is concerned, to reduce it, and the breaking up of the system into several distinct forms undoubtedly has this advantage."⁽⁹⁾ There is a need to broaden the basis of local taxation open to the local authorities, and this can be done either by making available to them rateable subjects which do not at present fall into the rating net, or else by allowing them to seek new sources of local income by methods of tax other than the rate.

One such alternative source, for example, would be a local income tax. Undoubtedly, this is an idea which has its attractions and it will be discussed more fully later; briefly, it would involve a discontinuance of the present rating system and the substitution of a locally assessed tax based on ability to pay. It has sometimes been suggested that this could take the place of grants raised by national taxation - that, indeed, the ability to pay principle could only effectively operate in a local income tax if it did involve a discontinuance of exchequer grants. This view has to be modified, however, as will be shown/

shown hereafter.

From 1896 the proposal has been raised at regular intervals by one Royal Commission after another. All have found on examination that there are difficulties in the way which appear to outweigh any advantages offered. Sir Henry Keith's scheme, for instance, which was considered by the Dunedin Committee in 1922, was in many ways a model of ingenuity, yet it was rejected on a number of technical grounds. The most compelling of these grounds, which was not technical at all, however, was that adoption of the scheme would be "too great a leap in the dark, unless it is clearly shown that the substituted system would work well and ensure equity..."⁽¹⁰⁾

Here is the acid test. How, in short, could we ever be sure until we tried? And, from an administrative point of view, this is a risk which could only be taken with a great deal of courage.

The truth is - and this what Horsfall Turner might have called the "almost maddening" difficulty - the rating system works, and works with a certain degree of efficiency.

(10) Report of the Departmental Committee on Local Taxation in Scotland, 1922. Cmd. 1674. p.11.

III

How, then, do grants fit into this pattern?

As we have seen, a grant is simply a transfer of funds from the private to the public sector, and by extension back again to the private sector; such transfers currently amount to about THE GRANT SYSTEM 3% of the gross national product. In the process, since grants are found out of State taxation, a progressive redistribution of private incomes has taken place. By the payment of general grant to a particular local authority which devotes a part of it for education purposes, citizen A, a rich bachelor, who makes no use of local education services whatsoever, has had his income more markedly depleted by national taxation than citizen B, who is poor and has four children all at State schools. The same effect would have been obtained if citizen A had made citizen B a present of a part of his income only to be spent on educating B's four children. To this extent citizen B is on less sure ground in complaining of the regressiveness of the local rates he pays on his house, although he might very well advance the conception of Education as a national duty from which universal benefits result.

Grant, it is clear, is therefore a mere agent, the link which binds local taxation into the national tax structure which is (11) itself the basic equaliser, for the effect of progression must always be to reduce inequality. In itself grant has but one underlying function - to bring local and national taxation together by introducing, however/

(11) Compare this view with the suggestion put forward in "Accountancy", April 1957, that there should be a multitude of grants so as to obtain the benefit of compensatory effects.

however crudely, the requisite degree of progressiveness. In the long run, the measure of this degree of progressiveness (and therefore of the total volume of grant) can only be the extent to which ratepayers are prepared to go on financing the operation of the services on the basis offered by central government. The only excuse for the existence of grant is that it helps in preserving the individuality of local units of self-government.

The question now to be asked is: what kind of a grant will best serve this purpose? Will it, for example, be a general grant or a specific one? Will it be fixed in amount or capable of being increased in response to need? And will it be simply a grant of money for carrying on the local services, or will it be so devised as to produce calculated side-effects in the interests of the national economy?

One recent responsible view has been that the ideal grant should be simple, intelligible and equitable; it should encourage local autonomy, yet leave the central government with a general control over standards. As a rider, it has been added that "the ideal grant does not exist and cannot exist", for these characteristics are often impossible to achieve simultaneously. "Just where⁽¹²⁾ the emphasis should lie is a matter of judgement", and any decision as to this must rest with central government.

There is not likely to be any single grant, as there was no single tax, which is perfect. We must look rather for a system of grants, and we may start our search for such a system by going back some/

(12) Local Expenditure and Exchequer Grants - D.S. Lees and others, 1956. (I.M.T.A. Research Study)

some thirty years. In 1928, at a time when the central/local relationship was being periodically reviewed, a White Paper was issued by the Ministry of Health in which the features of a proper grant system were postulated. Such a system it was considered, should -

- (a) recognise that a fair contribution should be made from the exchequer towards the cost of local services.
- (b) ensure that local authorities have complete financial interest in their administration.
- (c) permit the greatest freedom of local administration and initiative.
- (d) provide for sufficient general control and advice from the central departments to ensure a reasonable standard of performance.

Since these days there have been remarkable changes in the social and economic pattern, and little remains the same as it was before. Since 1928 the country has experienced the extremes of deflation and widespread unemployment and of over-full employment and persistent inflation; indeed the condition of inflation has exasperated and overshadowed recent planning as is evidenced by the steadily declining value of the £ over the past years -

(13)									
1938	1948	1949	1950	1951	1952	1953	1954	1955	1956
20/-	11.4/	11.1/	10.8/	10/-	9/-	8.7/	8.27/-	8.27/	7.8/-

A Welfare State has replaced what existed formerly bringing with it the necessity for the State to be ready to intervene to correct the performance of the economy, and a six-years war has brought about a technological revolution the consequences of which are hardly even now becoming apparent. It would be surprising if our thoughts about the grant system and the central/local relationship had not moved forward also.

If/

(13) London and Cambridge Bulletin, No23. September 1957, based on Retail Price Index.

If we were to recast the theoretical conditions of a proper grant system at the present time they might read as follows:

- (a) the system should arrange to transfer to the local authorities State funds as a contribution to the cost of semi-national services, so as to leave them to find the balance themselves, and this income equalising transfer should be at a level which will maintain active local interest in spending the money wisely. In making these transfers the Central Government should be free to use them as a control instrument in any way which will further the primary purposes of the State.
- (b) A standard ratio between the two contributions should be established and this ratio should be adhered to, not merely at three yearly intervals but on the basis of costs ascertained over much shorter periods, so as to avoid the characteristic time lag caused by rising prices.
- (c) Grants should not be given beyond the level of the ratio determined; for their own good the local authorities must be required to find the balance. For this purpose the local tax must be made to be sufficiently elastic to raise the money both now and in the future.
- (d) As much freedom as possible should be allowed to the local authorities on the expenditure side, subject to a necessary minimum of over-all State supervision. Where services are fully developed, control by the public should be relied on for the maintenance of national standards and specific grants should be generalised, so as to provide a stimulus to local interest. Specific grants should be reserved for development purposes or for use in special cases.
- (e) State/

(e) State grant, other than that specifically applied, should be weighted in its distribution to equalise resources so far as possible and to take local needs into account.

Now these conditions of a proper grant system are entirely dependent on one fundamental question - is the existing pattern of local government in this country, entailing responsibility for local services, an administrative arrangement which it is worth while to preserve? There are those who believe that the local government system is inefficient and extravagant and that local services could be organised more uniformly and perhaps more skilfully by a central department of the government. This may be so, and if we take this view then the need for a grant system disappears, for the cost of maintaining the services would be borne out of national taxes. The arguments in favour of the continuance of the local government system substantially in its present form have already been given. ⁽¹⁴⁾ They are powerful arguments based on political and economic considerations which are difficult to refute, and stated government policy in fact supports these arguments most strongly.

If, therefore, we assume the continuance of present arrangements as a matter of policy we will take all possible measures to foster the efficiency and the independence, financial and administrative, of the local authorities. Local taxation will thus be encouraged, primarily in the form of rating which seems to be the best available local tax.

The rate, however, while in fact forming part of the general tax structure of the country, as our analysis has suggested, is seen by the/

the individual ratepayer to be a single local tax, thus attracting criticism to itself, especially in times of rising prices. Now while public criticism is a healthy enough sign of government by the people, it can have an unduly hampering effect if it manifests itself at every turn, as it tends to do. The argument, for example, that "the rate-payers would never stand for" rate increases caused by salary claims is a familiar one to local government staffs. Local administration could be frustrated by this kind of excessive restraint. To avoid this we should endeavour to widen the local tax base so as to enable larger sums to be raised without marked increases in the rate.

This can be done either by permitting the local authorities to supplement the rate with other sources of local income, or to increase the yield of the rate, or to combine both methods. What must not be done is to allow the State to feed the authorities with increased grants, for while there may be nothing against this course financially, on administrative grounds the loss of local self-reliance and independence would go against our original assumption as to the importance of local units of self-government.

Our hypothesis, in the end, leads us to look further for the answer to two questions; first, in what form should the transfer of State funds to local authorities be made; secondly by what means may the local tax base be widened. These two problems are complementary, like the opposite sides of a penny. To them a third may be added, perhaps the most important of all, that of determining how best equalisation between the authorities and countries concerned may be effected.

It is principally with these considerations that the second part of this thesis will be concerned.

In concluding this part it is of interest to observe how closely a theoretical discussion has brought us to current practice. Broadly speaking/

speaking there is this correspondence; in point of detail, however, the system remains to be delivered from the results of a long succession of expedients. "The grant system is a haphazard growth of subventions great and small", which, though perfectly workable, remains in need of tidying up.

Consider the case, for example, of the Highland Schools grants to which reference has been made. These grants, originally given in 1839 and continued by the Highland Schools (Scotland) Act 1873, have somehow lingered on and are still authorised by section 72 and the 2nd Schedule of the Education (Scotland) Act 1946, an annual total of £899 being paid out towards the salaries of parish schoolmasters in eight Highland counties. Perth County Council, for instance, receives £31 every half-year for this purpose - a payment which has little meaning alongside the massive sums allocated at the present time.

It would seem, then, that the grant system in something like its present form is well enough adapted to meet the present situation, subject to any such modifications of detail hereafter suggested. Bearing in mind the special administrative features of local government as they are at present in this country, the existing arrangement of a general grant with an equalisation contribution, together with specific grants of either the percentage or the unit type where these are considered necessary in particular circumstances, is efficient for its purpose, which is to preserve the local government system.

It remains for local government, on its part, to see that its methods of raising revenue locally are equally effective.

(15) Local Government Finance. Cmd.209 (1957)p.8.

(16) The attention of the Treasury and of the Scottish Education Department has been drawn to this matter, and this is reported in terms of Regulation 13.

SUMMARY OF PART I

1. The local authorities have been given responsibility, as a matter of national policy, for the administration of the major part of the country's social services, subject to overall government control with a view to the maintenance of national standards.
 2. Since there are quasi-national services it would be appropriate if the nation as a whole contributed to their cost through national taxation. This would be equitable, for the "ability to pay" principle, which is acceptable, would operate universally.
 3. To preserve local financial interest and independence, however, part of the cost of services is made to fall on local citizens not as taxpayers but as ratepayers.
 4. Rates thus become part of the general tax structure of the country and this, too, would be justifiable on the principle of compensatory taxation if rate burdens in all authorities were the same.
 5. Because of local factors, however, there is an inequality between rates in one area as compared with another, so that efforts at equalisation become necessary. These attempts at present are only partially successful since inequalities arise additionally from causes unconnected with the rating system.
 6. The rate, too, tends to inelasticity which is specially apparent in times of rising prices. Being the only local tax, constantly rising rates lead to public criticism of this basis.
 7. It would be desirable, therefore, to find other sources of local revenue so as to achieve a greater local tax yield without marked rate increases.
 8. The other part of the cost of services, which is paid out of national taxation, is transferred to the local authorities as grant, either specifically for named services or in general allocations, depending on circumstances. In making such payments the State is justified in adopting any method of doing so which will further the common good.
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PART II

6. - THE NEW SYSTEM OF GRANTS CONSIDERED

I.

No single grant, as we have suggested, is likely to be perfect. It may never be possible even to secure perfection, and this may be acceptable provided the imperfections are fully recognised. The advantages of any particular form of contribution must be weighed against its disadvantages, remembering that it is with a system that we are concerned rather than with just one grant-type. There has been a very considerable amount of criticism of the new general grant from many quarters, for example, which would hardly have arisen had the grant been a perfect one, and it is to these apparent imperfections that we must now give our attention.

The new system substitutes for one which was largely dependent on expenditure another which turns on population, thus:

till 1959 %	Method of Distribution	after 1959 %
-	General Grant	66
-	Rate deficiency grant	
15	Equalisation grant	
66	Specific grants -percentage	10
19	-unit	24

From these comparisons some indication of the magnitude of the change which has been effected will be gathered. The reversal of the part played by specific grants, particularly the percentage grants in relation to the whole, is the most striking feature /

feature, for these have dwindled to comparative unimportance in contrast to the general grant . "Percentage grants," said the Minister at the second reading of the Bill, "will only be retained when the general grant cannot be made to fit the needs." The only major specific grants remaining will be those for Police, Roads and Housing, and these, too, would almost certainly have been generalised had they not been otherwise controllable, and had not "technical considerations" made generalisation for the time being impossible or undesirable.⁽¹⁾

Apart from the specific grants, however, each of which has its own special purpose, the chief feature of the new system is the fixed general contribution, and here, too, it is necessary to recall what has been said of such block grants. Their intention is to bring a progressive contribution in general aid of the rates. Broadly speaking central government grants are nowadays given in this way, which commends itself by:

- (a) consolidating many grants into one.
- (b) limiting detailed central control.
- (c) giving greater independence to the authorities.
- (d) responding well to needs weightings.
- (e) permitting the government to fix the total contribution.

GENERAL
GRANT AND
STANDARDS

It was almost certainly the last of these advantages which prompted the government to bring forward general grant in 1957. In recent years, for example, the most urgent need in the interests of the national economy has been to halt inflation /

(1) see Chapter 3.

inflation in the country, and while there is still no very general agreement as to what constitute the root causes of inflation, the control of public and private spending has been regarded by the Government as one step in the required direction. Here in the shape of the grant system was a control instrument ready to hand and the Government made use of it. By creating a general grant, for the time being fixed in amount, in place of specific percentage grants which were not fixed at all, the Government has applied an effective check on local spending, a control which could just as readily operate in the opposite direction if required.

In determining its share of general grant the amount which a local authority spends on a particular service is not important; what is of importance is the amount of population which its education authority can command. In consequence, a local council, reviewing its estimates for, say, the children service for the forthcoming year, will consider that beyond a certain fixed level all expenditures will fall upon the rates, and anxious to avoid further rate-increases and, if possible, to show rate-reductions, will have very good reasons for budgeting as carefully and even as sparingly as possible. Admittedly, the grant, though fixed for short periods of years, is capable of being reviewed by the government within the periods so as to take account of "the latest available figures of expenditure by local authorities on the services", but this will inevitably take time, and/

and in the meanwhile costs are rising continuously. There will be no alternative for the local authority but to keep its expenditure down or see the local rates go up.

Instead, therefore, of developing the children service, as it was previously encouraged to do, the local authority may find itself obliged to economise on the service to its possible detriment, and this argument will apply not only to the children service but to all other services whose grants have been generalised. Of these, by far the most important in terms of cost is education, and it is from teachers and educationists that a large amount of the criticism of the general grant has come. This is understandable in view of the importance which all classes of the community have placed on this service for a very long time. The country has been conditioned over the years to regard the education service as inviolable, and now the most powerful potential deterrent to further progress is being set up.

The difficulty is that development cannot ever be said to have been completed in a service like education, and the dividing line between maintenance and development expenditure is not at all easily fixed. "Progress in education depends on the aspirations of one decade becoming the minimum of the next... Now the less a local authority does the easier its financial position will be. The effect of this over a generation could be very serious indeed".(2)
The/

(2) Hansard. 11/12/57. Mr. Michael Stewart, M.P. at the second reading of the Bill.

The conclusion could be drawn that the need for control has commanded greater immediate concern than the development of the education and other services and the question thus resolves itself into one of primary and secondary aims.

On this the government intend that inter-grant-period review of the need for the development of a particular service will be possible, but link this need with the general state of the economy. In short, if it can be afforded, some improvement in standards may be secured, but this control over standards must be dependent on the opinion of the government rather than that of the local authorities. Once again it will take time to decide whether or not the moment is ripe for development, and in the meantime standards have dropped. The use of the general grant in relation to development, which is traditionally the province of specific grant, is unfortunate for its action is seen to be sluggish.

Then, too, one of the Government's arguments at the time when general grant was first proposed was that it would give local authorities increased financial independence. One of the chief advantages of any fixed general contribution is that, because of its fixed nature, it allows of a certain relaxation of central control. In commending general grant to the public at the Bill stage the government understandably stressed this aspect and at the same/

same time set up a Working Party (3) to carry out a review of the administrative arrangements so as further to reduce unnecessary central controls. Independence is a goal worth striving for, for without it the most effective local government will not be realised. General Grant to this extent offers a challenge and an opportunity to every authority.

While independence will undoubtedly result in the matter of applying the grant to this or that service, the application of these monies, in the end, must depend on standards, so that the argument is not wholly convincing - not, at anyrate, in the sense in which it was generally meant to be understood. It is hard to see how it can ever be since control over standards and their development must remain with the government. The recent Act gives the Secretary of State power, in fact, to intervene so as to control standards by reduction of grant where such action appears to him to be required. (4) Expenditure on advanced technology, again, is very much of a "development" nature, but since it is now to be stimulated through general grant it will be impossible to avoid the closest central control over this function.

What it amounts to is that the government says in effect:

Here/

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- (3) Local Government and Central Departments in Scotland - cmd.445, 1958.
 - (4) Local Government and Miscellaneous Financial Provisions (Scotland) Act, 1958, section 3.

Here is a fixed sum of money. Use it to help pay for services and whatever else you spend you must find yourself. You have freedom to apply it to education or children or fire purposes or anything else you choose, provided you do not allow these services to drop below the minimum standards we shall prescribe.

It it is accepted, however, that the government's need to achieve control over local spending has been of such vital and urgent importance in recent years that the development of services, or even their maintenance at present standards is a matter of secondary consideration, then there is little more to be added to what has been said.

II

Our criticism, then, is not directed against a general grant in principle, for this is simply the modern conception of how central finance should best be provided and the development of all that has gone before; it is not even directed against the fixed general grant which happens to be presently expedient - the "point of emphasis" for the time being.

Attention, instead, is unavoidably drawn to the lack of proper provision in the grant for change.

The new grant has many points of similarity to the original block grant introduced in 1929, and the two grants have been compared by a number of people. Population for example, is the chief element in both and both were brought in at a time when economies were sought after; both, again, were regarded with initial misgivings by many of the local GUARANTEED RATIOS authorities /

authorities.

The arrangements of the two grants differ, however, in this one important respect, namely in the provision made for protecting the local authorities against the effects of inflation. In any fixed grant difficulty is bound to be experienced because of steadily rising costs. Apart from short-term tendencies these rise continually and reduce the value of any global sum fixed for a particular grant period. Realistic, perhaps, at the beginning of a two year period this sum would be quite inadequate at its close, and the local authorities would bear this loss entirely.

The old block grant arrangements of 1929 provided for this contingency by establishing a ratio between the block grant and the total of rate and block grant borne expenditure, and guaranteed that this ratio would be preserved in future revisions of the grant. The grant therefore rose in proportion to expenditure, though not continuously as would have been in theory desirable.

General grant arrangements contain no such guarantees. All that is conceded is that "there may be unforeseen increases during the grant period of such magnitude that they cannot reasonably be carried in full by the local authorities. In this event the government will be prepared by way of exception to consider interim revision of the grant."⁽⁵⁾ As in all these arrangements this/

(5) Cmd. 208. 1957. p.5.

this will take time and the lag between rising costs and State aid could constitute an embarrassment to the local authorities. The clumsiness of general grant in operation compared to the automatic adjustment to cost changes found in percentage grants cannot be overlooked.

This is not satisfactory so far as the local authorities are concerned, for costs could quickly go beyond the fixed level and force either an increase in local rates or a decrease in standards. And, since "standards" are determined by the responsible Minister it would seem as though the ratepayers would bear the brunt of any inflationary tendencies. "We do not anticipate" said the Chairman of Dumfries County Council Finance Committee in submitting his 1959-60 estimates, "that the general grant and the other financial consequences of the 1958 Act will compensate us for the increased expenditure we must now meet." The rating system, strained as it is at the present time, will inevitably be made a scapegoat, for being a single tax it attracts to itself this kind of criticism.

On the other hand, the link between rates and taxes has been pointed to; what the individual may be called upon to pay in extra rates he should make up in reduced taxes, and following out the idea of compensatory taxation which was developed in Chapter 5 it will be recalled that it is with net effects that the individual is primarily concerned. The progressiveness of the tax structure, however, will be, to this extent, appreciably modified, since the regressive rating system is to play a larger part in the whole, and it must be asked if this is a result which was intended, and if so/

so, whether it is a good one at the present time.

Steeply progressive income taxation can be shown to be inflationary. It is a disincentive to saving for one thing, for a man will be more reluctant to accumulate saved capital if the income earned from it is ever more steeply taxed; for another it tends to discourage additional effort. The individual, offered the opportunity to earn a further overtime increment may well decline on the ground that the real money reward of such increments is lost through progressive taxing. It is probably true, as Break suggests (6), that the individual does not always consider the tax aspect or even the money reward in opting to work more, but the disincentive is there, and it must operate unfavourably in the face of attempts to regulate the economy along other channels.

For this reason, therefore, a cut-back in the present high progressiveness of national taxation would seem to be one desirable outcome which may flow from the adoption of a general grant.

Time lags and uncertainties, however, can hardly be beneficial to the local government system. In other countries where block grants of relatively fixed amount are used - as, for example, in Holland - there has been considerable dissatisfaction and frustration on this account. It would not be a difficult matter to establish a ratio/

(6) "Income Taxes and incentives to work" by George F. Break, in the American Economic Review." September 1957. Vol. XLVII.

ratio. An arrangement similar to that used in 1929 would work well enough and this would provide for change with some degree of fairness. Distinction must be drawn, of course, between change necessitated by development and the normal changes upwards or downwards in costs. As far as "development" change is concerned this must remain to be decided by the government periodically in the light of existing circumstances. But where "maintenance" change is involved there should be some more responsive method of making the adjustment required. A ratio would provide this method.

To establish such a ratio for use in connection with "maintenance" expenditure need not commit the government. As the initial need for a completely fixed contribution became less imperative the ratio could be applied by percentages; equally important, the ratio could be removed once more by percentages, if this was felt to be necessary.

Some such ratio would seem desirable, even if it were not immediately applied, for it would strengthen confidence in the new arrangements for general grant and encourage a more willing acceptance of them on the part of the local authorities.

III

At a first examination of the general grant formula the population basis would appear to be a very suitable one, and the distribution arrangements simple and effective. It is worth noting at the outset that the contribution and its allocation has been fixed separately for Scotland and is not linked to arrangements in England and Wales. It is, therefore, an equivalent.

POPULATIONAS ABASIS

In framing the formula the intention was not primarily to leave the Scottish authorities in the same relative financial position as they had been in before, (though there is little doubt that this consideration could not have been entirely ignored), but was meant rather to reflect what their "costs would be if there were throughout the country a uniform provision in quantity and quality of the relevant services." (7) We are ultimately concerned with individuals, and the more individuals an education authority can muster the more general grant it will receive; the grant is, in effect, a unit grant, the unit being people. The block grant of 1929 was similarly based on population, and apart from other considerations, proved to be perfectly workable in practice.

Since, however, the care and education of children is the chief element in general grant and since Scotland's child population is/

(7) A.L. Imrie, in an address to the Institute of Municipal Treasurers and Accountants, Eastbourne, 12.6.58.

is by no means evenly dispersed, the number of children under 15 has been made to enter twice into the basic population. This population is then weighted to take into account:

- (a) The ratio of landward to total population in each county. and
- (b) The sparsity of school population.

Unlike the English distribution method where various "supplementary shares" are given, these are true weightings which do not require separate recalculation at each change in the volume of the grant.

These weightings will be examined more carefully later; both reflect in the first instance the fact that education, and to some extent other costs are greater in thinly populated areas than in the closer-knit urban authorities. Both weightings go a certain way in answering the requirement that grant should take local cost variations into account.. Sparsity, of course, despite its special importance as a variation factor in Scotland, is but one of many such variances, and, as has been said, no single formula can ever satisfactorily be expected to meet this requirement, but the advantage of having a separate general grant in Scotland is that it can provide for needs that are peculiar to Scotland.

The formula, then, gives particular attention to education needs, for the education main grant now discontinued forms by far the/
the/

the larger part in it. This being so, it is reasonable to enquire what has happened to the former rate product deduction from education main grant.

It will be recalled that in 1948, at the time when the old block grants were being discontinued and a number of services were being taken over by the State, it was considered necessary to withdraw the net gains arising to some authorities thereby using these to augment the equalisation grant to below-average authorities. The method of doing this was to apply a rate product deduction to the largest specific grant, education. At that time there was, of course, no general grant which might have been used for this purpose. Now there is, yet the deduction has been omitted.

Edinburgh and Glasgow, the two education authorities not in receipt of equalisation grant may in theory benefit to some extent from this, though any gain effected is likely to be small and would in any case be absorbed through the system of transitional payments. The omission is justifiable on the grounds of simplicity and the position vis-a-vis England and Wales, where the rate product deduction remains, is unaffected, since the aggregate amount of the grant is separately fixed for Scotland. The view has been expressed that the deduction so far as the English general grant is concerned is redundant since it serves the same purpose as the rate deficiency grant.

Essentially, however, the formula is one based on crude population/

population figures and, unless we could assume a perfectly static population, this inevitably leads to certain difficulties.

Firstly, as in the old Block grants, no account has been taken in Scotland of declining population authorities. In England weight has been added to the formula for such authorities, but in Scotland this weighting is absent. This is perhaps accounted for by the distribution arrangements of the grant which is calculated initially in terms of population for counties and counties of cities, and then apportioned and paid to rating areas according to rateable or standard rateable value, whichever is the higher, thus adhering, incidentally, to the pattern set by the present method of apportioning county expenditure. Consequently, within the burghal and landward areas of the county it is effective rateable resources which determine grant allocations and only indirectly population. In this way a small burgh with a declining population will not be unduly prejudiced. In addition, the need for such a weighting was rejected at the 1953 investigation into the working of the equalisation grant in Scotland, and until the next investigation takes place a re-appraisal of this need will not be possible. Indeed, so far as Scotland is concerned, the new arrangements for general grant cannot be regarded as permanent for they may be affected by adjustments to the equalisation grant at the review which will follow the 1961-62.revaluation. It will be observed how it is at all times necessary to have regard to the system as a whole, and within this pattern the question of equalisation remains to be discussed in a subsequent chapter.

I It does mean, however, that an education authority with a declining/

declining population which may have built up high-standard services for the benefit of its total population will find a diminishing use for these services, but in many cases will be compelled to continue to operate and finance them at the same level with diminishing grant resources. The proportion of variable costs in a number of these services is remarkably small and loans charges and other expenses of a fixed nature will not decline automatically with the population. This was one complaint made against the former 1929 type Block grant, and the complaint is still a justifiable one.

A similar effect, indeed will be obtained through any inter-education area population movements whatsoever, and these, as we have seen, are often unpredictable and in any case largely beyond the control of the local council. In illustration of this it should be noted that "population" for these purposes includes service personnel - for instance, members of the United States armed forces - and this would seem anomalous in view of the floating nature of this kind of population. Where such movements remain small no great harm will be taken, but any serious outdrift of population will have immediate repercussions on the fixed expenses of the exporting authority concerned. Where the Highlands are concerned and to a lesser extent Scotland as a whole, the problem has been to hold the population; the tendency is in the opposite direction. In 1956-57 Scotland, of all employment districts in the United Kingdom, suffered the greatest loss by migration - 8,000 of her population.(8)

It/

(8) Ministry of Labour Gazette: June 1958

It may be thought that general grant in its present form might work more effectively with a relatively few large authorities - the fewer and larger the better - for then the effects of population movements would be spread over the whole region. Against these arguments there has to be set the chance that the large authority, the county, which alone has responsibility for providing certain services, such as education, throughout its area, may in future decide to spend less or more on such services to the possible detriment of the smaller authorities within the county area, whose control over such decisions will be somewhat limited.

The weighted population formula, however, is essentially a simple one - much simpler than the equalisation grant formula as a comparison of the flow charts in Appendices F and G will show. the object of distributing a global sum among the Scottish authorities is achieved by first allocating to education areas, in proportion to population, this population being weighted to favour sparse areas and areas where the number of children is above average. These allocations are then shared out within the areas in the manner in which expenditure is borne.

Let us test this formula further. Suppose that in the future it is decided to include the police service for general grant in the manner earlier suggested; would the existing formula be adequate to deal with the inclusion? There would appear to be no reason why it should not. The fire service, which is in many ways comparable to police has now had its grant generalised and if the present distribution formula is considered appropriate to fire, then it should work also for police. Police costs, too, which/

which are mainly made up of pay and allowances, are likely to be influenced by population density and sparsity, and to some extent at any rate by the density of child population, so that the existing formula would seem to be adaptable enough to absorb this further service without alteration.

By its universality population suggests itself as the natural basis of distribution where widespread and differing areas are concerned.

IV

I It would be possible to pick out additional short-comings of the general grant - the fact that the formula does not provide for every possible need, or that the authorities which, like Aberdeen, have preferred to maintain high standards and consequently incur heavier costs are likely to gain the least out of the grant. All these are valid criticisms but they are not constructive, and as much as anything constructive criticism is what is needed. During the passage/

passage of the Bill nearly everything that was said of the general grant was in the spirit that this was a bad grant and one to be discouraged.

This view is not taken here. As has been said, a general contribution in itself is nothing new and is in many ways a far superior grant-form to any other. A fixed general grant, too, though unpalatable, is hard to criticise for it must be the responsibility of the government to decide whether it shall be fixed or not. Despite its other defects - and defects are a feature of any type of grant - there is no reason why the new general grant should not operate effectively, provided its present fixed nature can be relaxed when the economy of the country is reasonably stable once more.

In the end, the main purpose of general grant is to introduce a certain desired level of progressiveness and this, as we have seen, will depend on the public's acceptance of the situation it finds itself in. This reaction will only become apparent as time passes.

7. - EQUALISATION.

I.

It has been aptly remarked that while general grant is an expenditure grant, the equalisation contribution is an income grant, for, as the name now given to it in England, rate deficiency grant, suggests, it is a rate contribution made by the government to those authorities whose adjusted rateable value per head of weighted population is less than the standard. From the following figures it will be seen that in Scotland the great majority of authorities fall into this category:

	Receivers	Non-receivers	
Counties of Cities	2	2	
Counties	33	-	
Large burghs	19	1	
Small burghs	158	15	
	212	18	(1)

The details of the present form and working of the grant in Scotland have already been described in an earlier chapter; it will be recalled that since 1954 Scottish authorities have not been participating in the grant on a normal basis, but on a makeshift arrangement designed to secure equity. The whole subject of the equalisation grant, too, has been ably analysed by the research group under the chairmanship of Dr. Lees in 1956, and it is not proposed /

(1) 1956-57; 3rd provisional calculation.

(2) Local Expenditure and Exchequer Grants, 1956.

proposed here to restate principles already postulated except to the extent that they bear on the argument. In this chapter we shall be concerned rather with the possible rôle which equalisation has to play in Scotland in future years.

FUTURE
REVIEWS

The revaluation of rateable properties which was scheduled to take place in 1961-62 will occasion a review of the basis of the grant ⁽³⁾ and will provide opportunity for a reshaping of its main features, if this is considered desirable. It will be appropriate, therefore, to examine these features at this point.

The need for equalisation arises primarily, as has been noted from the fact that few local government areas are directly comparable, for many different reasons. These areas, arbitrarily fixed in past years, have often little connection with the present-day needs of the localities, so that any attempt to ensure that "two citizens of equal substance in different parts of the country have to make an equal contribution" for equivalent local services will be only moderately successful, and this would remain true, though possibly less obvious, however it was decided to reshape our areas, and whatever means was employed of taxing the individual for the provision of functions. The differences which make it hard to compare these areas with each other have been recognised as falling into two categories, namely, differences in resources and differences in needs; where Scotland is concerned a third difference is apparent, namely that which exists between this country and the rest of the United Kingdom.

The /

(3) in terms of section 30 of the Local Government Act 1948.

The needs of the Highlands, for example, are not those of the Lowlands, while those of the Clyde Valley conurbation vary from those of the Border counties. The costs of a sparsely populated county are totally different from those of a compact urban area, while the standard of service provided may be considerably higher and more expensive in one authority as compared to another. Some areas are wealthy in terms of the personal incomes of their inhabitants, where others are poor. The variations are without number - and these variations are not by any means static - yet for local government purposes we must endeavour to provide an equal charge for equivalent services everywhere, and to do so using a system based on volumes of rateable value which are themselves not comparable.

The best that can be done is to see that a rough measure of justice is obtained, and to do this we may start by selecting the more important of these causes of local differences, listing them as follows:

- (a) Population densities
- (b) Rateable resources
- (c) Special population groups
- (d) Comparative wealth and poverty
- (e) Degrees of development and standards of services provided
- (f) Other special factors affecting local costs.

We may then arrange to contribute or refrain from contributing to the local government areas according to a formula which takes into account their respective differences in terms of the items listed, so as to bring them all roughly on to an equal footing. As has been earlier remarked, the sharing out of a large lump sum among all authorities lends itself well to the application of formula in this way.

Thus, /

Thus, by way of simple illustration, we could assume two authorities, between which it is desired to divide a total grant sum according to populations. Since, however, it is evident that the cost of certain services is likely to be greater in one as compared to the other because of the higher incidence of old people, it is decided to weight population so as to favour the authority with the higher age ratio:

Authority	A	B	Total
Population	50,000	100,000	150,000
Number of old persons included therein	5,000	5,000	10,000
	55,000	105,000	160,000

Grant available	<u>£10,000</u>	£
Distributed as to -		
A- $\frac{55,000}{160,000}$ X £10,000	=	3,438
B- $\frac{105,000}{160,000}$ X £10,000	=	<u>6,562</u>
		<u>£ 10,000</u>

In this way A's needs in a comparison with B have been compensated for, though whether this has been over- or under-compensated depends on how important the matter of old age is felt to be in the determination of total costs.

By such methods general grant takes account chiefly of population dispersions, while equalisation grant provides for a levelling out of rateable values so far as receiving authorities are /

are concerned (4). It is clear, then that when we talk of equalisation we are not simply concerned with "equalisation grant", which is primarily a method of achieving equalisation of resources in terms of rateable value for authorities below the standard. We are also concerned with general grant or with any other grant to which a weighting element can usefully be added.

The problem of equalisation can be theoretically approached in the following synthesis. First, let us imagine Scotland, a country where everything is organised in perfect uniformity; the population evenly spread, the inhabitants all earning exactly the same incomes and supporting the same size of families, and all living in standardised houses which have all the same rateable values. We will assume further that in no area is a better standard of service being provided than in any other. Under such conditions the rating system would work perfectly, and there would be need neither for equalisation nor for central government grants.

THE
NEED
FOR
EQUALIS-
ATION

Next, let us introduce reality bit by bit. Populations, as we have remarked, are never evenly spread nor even permanently fixed /

-
- (4) It is important, of course, to observe that, except in the case of receiving authorities, any true equalisation of resources under equalisation grant does not exist. Since the withdrawal of the rate product deduction in the Education main grant the additional rateable value enjoyed by above-average authorities is not used in any way to supplement the deficiencies of those falling below the average. This supplement is met from national taxation.

fixed. In Scotland, large parts of the country remain thinly populated, while the bulk of the people are concentrated in a few industrial areas. Some measure of equalisation at once becomes necessary, therefore, for the cost per head of services in the sparsely populated areas will be very much greater. However, if this were the only disturbing feature, the rating system with an equalising factor added could still be relied upon exclusively. To the argument: why should the densely populated area pay more to provide services for people in sparse areas? - the simple answer is: - because we oblige them to take these services.

But then, houses too, by the nature of things, cannot be standard, and consequently rateable values will differ as between areas. Here again, to ensure that every individual enjoys the equivalent semi-national services which he is obliged to take at a similar cost, equalisation will have to be provided, and all other assumptions remaining valid, this could still be done without recourse to central grants by further weighting the rating system, ratepayers who live in bigger houses having been otherwise called upon to contribute a larger amount than others. Since all are still, in our premise, earning the same, the regressive nature of the rating system can incidentally be observed.

Thirdly, personal incomes will in reality be no more uniform than the other two factors so far referred to, and if no steps were/

were taken to adjust this differential then the rate charge for local services would bear more heavily and inequitably on the poorer than on the richer. The method adopted to deal with this is, as we have seen, to separately tax individuals having regard to their ability to pay and then return the money to them to be used only for semi-national services. In this sense, then, any form of government grant is essentially an equaliser.

In this connection the view is often put forward that a local income tax would serve the same purpose, and indeed this would be so if the tax were carefully devised. It would not, however, any more than the present method, eliminate the necessity for equalisation of the other factors under discussion... so much is proved by the experience of other countries - as, for instance, Norway, where a local income tax is used.

In short, then, if instead of a country where perfect uniformity existed we could assume a perfect system of equalisation, it would matter little whether semi-national services were paid for exclusively out of rates.

We need take our synthesis no further; the notion of a country where perfect uniformity exists is the reverse of things as they are. The perfect equalisation system, too, will probably never be achieved, but the weightings applied in both general grant and equalisation grant go a considerable way to equalising the main variation factors noted, as the following table shows/

shows:

Type of Grant	Distribution Base	Weighting and Adjustment Factors
General Grant	Population	children under 15. sparsity of school population. ratio of landward to total population.
Equalisation grant	Rateable value	children under 15. sparsity. rapidly increasing population. Corporation housing rents. Local expenditure.

It may be remarked, too, that to the extent that local expenditure is financed by both these general contributions and by other specific grants the ability to pay principle, itself an equalising device, is in operation.

II

Such weighting factors as have been used up to now are not necessarily valid for all time; they can be adopted or discarded according to the needs of the day. The unemployment weightings/

weightings of the old block grant, for example, are not at present felt to be required. Nor do such weightings exhaust the causes of local differences; they do achieve a reasonable degree of parity between authorities, and the principle has been adopted in the past - reasonably - of ignoring causes of difference unless they could be shown to be significant and not simply trivial. The present equalisation contribution makes use of a number of weightings as shown above, and some of these may now be examined closely.

Children

EXISTING WEIGHTINGS

The weighting for the number of children under 15 added to the total population has the effect of increasing the grant payable to areas where the proportion of children is above average. This "children" factor, together with that for sparsity, have been regarded for many years as two of the most important causes of difference between localities. The special population group made up of school children is particularly noteworthy in determining local authority expenditures, mainly because the education service is of such major importance. A similar "needs" weighting, however, is applied in the general grant formula, so that there is an effect of double weighting here. One formula, say the general grant, could be used to apply this weighting, instead of the two as at present.

Sparsity.

A further instance of double weighting is observed in respect of sparsity. Such a weighting is necessary to reflect primarily the greater costs of educational and health services in landward as compared to burghal areas, and in particular in the Highland /

Highland counties such as Sutherland and Ross and Cromarty, where the population is very thinly spread. But similar weightings are used in both the general and the equalisation grant formula; again, one base could be weighted instead of two.

It would, in short, be possible to transfer the main weightings from equalisation grant to general grant where DOUBLE WEIGHTING they would operate with equal effectiveness, thus leaving the equalisation grant as a simple equaliser of rateable resources for receiving authorities.

A simplification along these lines would be theoretically at any rate, desirable. At present there are two large grants, each with a separate base:

Population
and Rateable value

to each of which various weightings are applied. It is proposed to strip the latter of the duplicated weightings.

Such thoughts lead inevitably to the question: are both these grants necessary? Might it not be possible with greater administrative advantage to combine them into one general grant where the benefit of weightings would accrue to all authorities instead of, as in the present equalisation grant, to just the receiving authorities?

If rateable values in the various areas draw closer together in the future, as might reasonably be expected, the number of authorities receiving equalisation grant would become progressively less. There would always be some receivers, but eventually these could /

could be so few and the volume of the grant so comparatively small as to suggest a discontinuance of equalisation grant, ^{AN} OMNIBUS GRANT its remaining function of resources equalisation being taken over by the general grant. This could lead us in the long run to an omnibus general grant - a refined version of the block grant of 1929.

This is a possibility for the future. For the present we must continue to use the two grants, improving general grant by any further weightings which may seem desirable, but bearing in mind that each additional weighting should have a significant purpose which is reasonably universal, for it is otherwise simply a complication of the formula. Certain such weightings which suggest themselves are as follows:

Increasing Population

There is a weighting added to the existing equalisation grant formula in Scotland to adjust for rapidly ^{OTHER} POSSIBLE WEIGHTINGS increasing population, so that the population of a county is increased to the extent of twice the number by which the increase in civilian population over the past five years exceeds 5% of the population in the first of the five years.

This would seem to be an important and useful weighting in Scotland where, apart from normal increases, there are now considerable movements of population planned to deal with the problem of overcrowding in the Clyde valley. The high costs of providing new services before the benefit of the additional rate resources/

resources is available would constitute a hardship in such areas which should be adjusted for, and in this connection a five-year lapse would seem an unduly long period in certain cases. Where planned migration is involved it might be considered reasonable to apply an immediate weighting.

A similar, though quite separate, consideration is raised by population groups which are increasing, not rapidly because of special circumstances, but steadily and normally. This will generally go hand-in-hand with areas in which industrial expansion is evident, and it has been suggested that local costs in such areas will tend to be comparatively greater than in others. There appears, in fact, to be no evidence that this is the case, at least not to any significant extent. (5)

Decreasing Population .

Certain areas, on the other hand, are subject to a decline in population, and where this tendency is evident, hardship arises by comparison with other areas, since the fixed expenses of existing services must continue to be met and considerable time must elapse before these fall back into line with the reduced population. In England and Wales weight has been added to the general grant distribution formula to adjust for this, by a supplementary share of/ (6)

(5) Local Expenditure and Exchequer Grants. p.141. D. S. Lees and others.

(6) Local Government Finance in England and Wales. Cmd. 209, 1957.

of half the percentage decline over the past twenty-one years in excess of 5%....5% because below this figure corresponding increases in expenditure would not be significant to any great extent. Earlier proposals had dealt with a fifteen year period for the purpose, but this has since been considered an inadequate time lapse to smooth out a long-term tendency of this type.

The difficulty here is that comparatively few authorities are affected by this factor, yet some of these few are affected badly. It is probably true to say that in England the county borough of West Ham is the one most concerned, and weighting of the type mentioned tends to unduly favour the most affected by comparison with the others, so creating anomalies.

In Scotland, at the time of the first investigation into the working of the equalisation grant in 1953, it was felt that the small gains to be derived by four counties and two large burghs from introducing such a weighting made it not worth while. One curious result which emerged at that time was that Clydebank, because of the differing time periods used in the weightings, would have had simultaneously an increasing and a decreasing population. These conclusions were based on calculations for the year 1951-52, since when a decade has passed. It is thought that the desirability of again reviewing this factor should be considered.

Housing

In some areas the cost of providing houses is well above average/

average. Some authorities, too, have to provide more new houses than others, and in this matter Scotland is behind England and Wales. At the 1951 Census the comparison shown below was made:

	percentage of populations	
	Scotland	England and Wales
2 rooms or less	30%	4%
3 rooms or less	60%	15%
more than 2 persons per room	15.5%	2.1%

In particular, this factor may be related to developments in terms of overspill agreements under the Housing and Town Development (Scotland) Act 1957. Apart from the high cost of providing new housing an authority may well find that because of the resulting volume of new rateable value the equalisation grant receivable is reduced, although specific grants are, of course, available under the Act mentioned. This matter was referred to in the reports of the investigations into the working of the equalisation grant in 1953 and 1955, when it was agreed that the position must continue to be closely watched. If action is now to be contemplated in this matter the question may arise as to whether or not ad hoc grants might be used more advantageously than weighting. In general, specific grants of this nature would seem appropriate only where isolated authorities were affected. In these overspill agreements there are likely to be involved more than just a few authorities, so that it might be more convenient to adjust by weighting./

weighting.

Age

As has been noted, the population as a whole is changing to reflect a proportional overall ageing. This tendency may be more evident in some areas than in others, and on the assumption that the care of the aged is an element of local costs which is thus likely to increase, some weighting might usefully be applied for this. Apart, of course, from the increasing cost of services for the old, there is the fact that an ageing population will tend to be a declining one. In England and Wales, indeed, although general grant in that country is for the time being at anyrate to operate somewhat differently than in Scotland, a weighting in the form of a "supplementary share" in general grant is to be given of £0.42 for each person over 65, and also for each child under 5.

In England and Wales the general grant distribution formula will deal with:

- (a) a basic share of £5.75 per head of population, plus £0.52 for each child under 15 in this population.
- (b) supplementary shares or weightings.
- (c) a rate product deduction.

GENERAL
GRANT
IN
ENGLAND
AND
WALES

The supplementary shares will include additions for:

schoolchildren.
the very old and the very young.
high and low population densities.
declining population. (7)
high costs in the Greater London area.

(7) See Appendix D.

It is of interest here, in view of what was earlier remarked, to find that the new rate deficiency grant in England and Wales has been shorn of the weightings for rapidly increasing population and decreasing population and for children, the latter two having been transferred to the general grant formula.

The effect of the introduction of general grant, together with other attendant changes in England and Wales will be to reduce the rate deficiency grant in that country. This will in turn affect the pool of exchequer grant available to Scotland by a sum estimated at £1.9 million - a point which has been provided for in fixing the total amount of the general grant for the first grant period.

III

Now it might reasonably be supposed that the more reliance comes to be placed upon the rating system the more becomes the necessity for equalisation of rate resources. One possible effect of the general grant may be to cast a heavier burden upon the rates; local expenditure on services may well rise/

rise beyond fixed grant period levels because of rising prices which are outside the control of the local authorities. As matters are at present, this would adjust itself to a certain extent.

As "relevant expenditures" rose, so participation in equalisation grant would increase, at any rate for authorities which were receiving the grant. This self-adjustment is a good example of the flexibility of the equalisation grant in its guise of percentage grant.

However, arising, no doubt, out of a suggestion made by the Edwards Committee in 1954 that there should be a limit to increases in expenditure which earn grant, the intention of the government was stated of applying some such form of limitation to the rate deficiency grant in England and Wales. "The effect will be that in considering a new project or an expansion of a service there can be no assurance that the increased cost will attract rate deficiency grant; and so far as this grant is concerned each new project will have to be considered on the basis that the whole cost might fall on the rates."⁽⁹⁾

EXPENDI
TURE
LIMITS

Under the Local Government Act, 1958, Section 6 (2), all local authorities in England and Wales are divided into six main categories, and a total relevant expenditure ascertained for each/

(9) Cmd. 209 p.12.

each of these groups. The relevant expenditure of any authority in any year is then calculated by multiplying the authority's weighted population by the group expenditure per head of population. In this way relevant expenditures are tied to group averages.

This provision, of course, is entirely in keeping with the other conditions of the general grant, which was to be distributed according to objective factors beyond the control of decisions taken by individual authorities, but in England it will constitute a further uncertainty and tend to operate harshly against the high-standard authorities. Scottish authorities are at present only indirectly affected by expenditure limits of this type by the extent to which the Scottish allocation of money is thereby restricted.

The present Scottish formula does, in fact, take account of one such limitation, namely that arising from the possibility that some authorities, as a matter of housing policy, keep the rents for council houses at a low level. These, in turn, by influencing gross annual values and thereby rateable values per head of weighted population, could attract a greater volume of equalisation grant to the authorities in question.

This contingency is provided for; what is not at present controlled is the rate contribution to council housing expenditure which by reason of a low rent policy would be increased and entering into relevant local expenditure would attract equalisation grant and so reduce the objectivity of the arrangements.

It will shortly be suggested that a United Kingdom basis may in fact have to be adopted for the future distribution of rate deficiency/

deficiency grant. In this event it would be necessary to classify the Scottish authorities in a similar manner to that in use in England and Wales, and to calculate annually their relevant expenditures on a group basis. If this were done it would go a considerable way to overcoming the difficulties caused by housing rents - a matter which may more appropriately be controlled by action outside the grant system.

IV

Finally, in attempting for these purposes to correct the differences that exist between areas it is not sufficient to consider Scotland alone, without reference to the remainder of the United Kingdom. Indeed, this differential is the most intractable of all, and has left us in Scotland with an equalisation grant formula which is complex, unwieldy and artificial; throughout the past decade continuous/

THE LINK
WITH
ENGLAND
AND WALES

continuous efforts have been made to find common ground between the two countries for grant purposes.

There would seem to be several possible approaches to this part of the problem. We could, for example, leave matters in the future as they are at present; this would be the easy way which would continue to provide Scotland with a distributable "equivalent" each year, notionally calculated and difficult to justify, but causing the least disturbance to administrative systems in Scotland and England and Wales. It is thought unlikely that this proposition would continue to meet with the approval of the government

Alternatively, the view could be taken that, since general grant is dealt with separately in Scotland, there is no reason why this country should not operate its own rate equalising scheme quite independently of arrangements in England and Wales. There is precedent for this, for London has operated its own internal scheme since 1948, whereby those metropolitan boroughs in which the rateable value per head is below the London County Council average receive contributions which are charged rateably on all the boroughs. There is much that could be said for such a plan; a Scottish equalising scheme would avoid the complicating link with England and Wales entirely and could work with comparative simplicity.

The objection would be on the grounds of equity as between/

between the two countries for under any separate scheme it would be even more difficult than at present to say whether a citizen in Scotland was making a greater or less contribution for local services than his counterpart in England and Wales.

Thirdly, we could wait until after the revaluation of 1961-62 and seek then to determine as accurately as possible by what arithmetical percentage Scottish rateable values could be compared with the English average and come back on to the United Kingdom basis which was abandoned in 1954, using this percentage. This third approach seems the one most likely to be adopted, and, when the time comes it may even be found possible to dispense with arithmetical comparisons and arrive at one United Kingdom standard.

Much faith has been placed in the impending revaluation of lands and heritages in Scotland which it is hoped will bring her broadly into line for these purposes with England and Wales. Logically, if revaluation in Scotland achieves this aim, the Scottish distribution formula for equalisation grant together with the method used to determine Scotland's share of the grant should be exchanged for the system now in use in England and Wales.

If this were done two major changes would be involved. Firstly, it would be necessary to adopt the use of rate products for these purposes instead of rateable values, and secondly the sparsity factor in rate deficiency grant would have to be recalculated or abandoned. All these changes will call for a considerable degree of cooperation and goodwill between Scottish and English authorities. The pattern of local government is basically different between the two countries and it is unrealistic to assume that needs/

needs are the same north and south of the Border. Variation factors, till now blanketed by the Goschen formula and even by the rates burden basis, will inevitably present themselves and call for negotiation. But it is difficult to ignore the fact that the present arrangements in Scotland were not intended to be more than a temporary expedient.

moreover when the Scottish equalisation grant comes to be reviewed after revaluation, five years will have elapsed since the new pattern of general grant and rate deficiency grant in England and Wales was first devised, and there will be available three years' experience of its full working outside Scotland. With this experience it should be possible to bring about the kind of general uniformity that has been discussed.

Revaluation will not bring perfect uniformity in rateable values throughout the United Kingdom, though it will without doubt make them more readily comparable. Under the new arrangements envisaged the problem would not simply be to divide a residual of x between Scottish authorities; these Scottish authorities would rank along with all other United Kingdom authorities for the purpose. It is suggested that, given a reasonable degree of co-operation, there should be no reason why this arrangement would not only be desirable but could be acceptable.

A change-over along those lines could be achieved without any resulting loss to Scotland as a whole. Any apparent differential in the new total sum notionally available to Scotland as compared to the old could be made up by inclusion in the Scottish general/

general grant total and allocated on this basis. This adjustment would only be required initially, for it would perpetuate itself.

It may of course be argued that in adjusting any notional difference in equalisation grant in this way we will be distributing it in Scotland according to the general grant formula to counties and counties of cities in the first place, whereas under equalisation grant arrangements not all authorities are receivers of the grant.

Several comments may be made on this criticism; first, that until the results of revaluation are known it is impossible to foresee the amount of this differential, which may be quite small. Secondly, such an arrangement, while disposing once and for all of the artificiality of the present system, would provide a guarantee that Scotland as a whole would not lose by adopting a United Kingdom basis. Thirdly, the only non-receiving authorities which would notionally benefit from this arrangement would be Edinburgh and Glasgow, and it could be provided that these did not participate in the allocation of the differential sum in question. And lastly, (11) the precedent for this has already been established in determining the total amount of the general grant for the initial period to take account of the transitional reduction in equalisation grant.

We begin now to visualise more clearly the future pattern of equalisation within the grant system, which, apart from the specialised/

(11) Local Government Finance in Scotland. Cmnd. 208. para. 16.

specialised specific grants, will involve:

General grant

and rate deficiency grant.

We have regarded the future distribution of the latter as being on a United Kingdom basis, uniformly applied, and as free as possible of any complicating weightings which would make it something more than just an equaliser of rate-resources for below-standard authorities.

The equalisation of needs, on the other hand, will be dealt with through general grant, and weightings for this purpose may continue to be applied on a Scottish basis, subject to periodic review. These needs will be of an "internal" nature; that is, they will adjust for differences between Scottish local authorities, inter se.

In addition, needs of an "external" type may arise from time to time. It could be argued, to give a single example, that Scotland is out of step with the rest of the country by reason of higher levels of unemployment. ⁽¹²⁾ This may best be adjusted by negotiation in fixing the amount of the general grant at each grant period review.

Consideration of the particular variation factors which may be adopted for weighting the general grant at the reappraisal following revaluation must be left for the Working Party to decide, for the need for this or that weighting may change; the foregoing view/

(12) The "Economist" monthly average for April 1958 showed comparative unemployment figures as follows:

Great Britain

2.0%

Scotland

3.6%

view of equalisation arrangements represents a tidy-ing up, as it were . If we would further improve on that then it is to the local government areas themselves and their reorganisation into larger units that we must look.

8 - THE EMERGING PATTERN OF LOCAL GOVERNMENT

At an early point in the development of this thesis two questions which are fundamental to the argument were raised. Is local government useful? If so, is it useful in its present form? These questions must now be examined more fully.

The first may be deferred till later in this chapter; as a basic premise the usefulness of the local government system was assumed, and its continued use as an administrative framework upon which reliance could be placed was regarded as a necessity. This assumption was made on political grounds and has been supported (1) by policy statements by Ministers of the government. Moreover, it is an assumption which requires to be made, for without it the present enquiry would be pointless.

The second question - is local government useful in its present form - is one over which a much greater LOCAL GOVERNMENT AREAS measure of control is possible, for here there is not so much a political issue as a simple desire to achieve the most efficient administrative machine for carrying out the policies referred to. This consideration must inevitably touch the grant question at its very foundations.

So far as the grant system is concerned the object must surely be first, to set up the best administration, and then/

(1) See Chapter 1.

then to provide the most suitable system of finance to go with it. The one is dependent on the other, but it is essential to get the relative importance of the two right; no system of finance will operate successfully unless the system it serves is in itself satisfactory. We have therefore to compare the present system of finance with the administrative background against which it may have to operate.

A hundred years ago Scotland was divided up for local government purposes into parishes - a system which, as time passed, proved cumbersome and defective, mainly on account of the smallness of the local administrative unit. "Nearly every third parish in Scotland", wrote M'Neel Caird, ⁽²⁾ "has fewer than 1,000 inhabitants; nearly every tenth parish fewer than 500. Yet these Lilliputian communities have their organised Boards, their salaried officials, their Parliamentary powers to tax their neighbours and spend the money." Lord Cockburn tells of his having been at a meeting of heritors where four were present... "Society", he adds, "is all spotted and bubbling with these little senates."

The present pattern of Scottish local government was established by the Local Government (Scotland) Act of 1889, and modified in 1929 and 1947. So far as Scotland was concerned the former parishes gave way to two-tier counties with landward and burghal areas, the former being divided into districts, the latter comprising/

(2) Cobden Club Essays, 1875.
Local Government and Taxation - A. M'Neel Caird.

comprising both large and small burghs in respect of which the counties had only limited responsibilities. In addition there remained the four cities of Edinburgh, Glasgow, Aberdeen and Dundee, which, like their counterparts in England and Wales, the county boroughs, were all-purpose authorities entrusted with the administration of all local government services in their area.

The position of the four counties of cities is clear enough - they are very much larger than any of the other burghs, with populations ranging from 178,000 in Dundee to over a million in Glasgow. They are all powerful enough to provide efficient, adequate and dynamic administration of services, and their areas are compact and well-defined, with the possible exception of Glasgow which is too big.

The thirty-three Scottish counties, too, are generally speaking a logical and convenient division of administrative responsibility, having regard to local circumstances and territorial groupings. In this connection certain criteria have been suggested by the government in determining whether this division is a fair one; it should, for example, take account of:

- (a) community of interest.
- (b) development or anticipated development.
- (c) economic and industrial characteristics.
- (d) financial resources measured in relation to financial need.
- (e) physical/

g

(3) Areas and Status of Local Authorities in England and Wales
Cmd. 9831. 1956.

- (e) Physical features.
- (f) population.
- (g) record of past administration.
- (h) size and shape of the areas.
- (i) wishes of the inhabitants.

These tenets are far from being exhaustive, but it is worth keeping them in mind, however, in considering the position of the small burghs. Over eighty per cent of these have populations under 9,000. Many of them are still little more than large villages which are never likely to develop much beyond their present size. They are often royal burghs with a history that goes back many hundreds of years and a local pride founded in tradition, but they have all the defects of the old parish system.

An example of these which is typical is the royal burgh of South Queensferry, an authority with a Charter granted by King Charles I, in which the inhabitants take keen and justifiable pride. Yet the population is a mere 2,744, and the rateable value £39,739. Out of these resources there must be maintained a local council with appropriate buildings, and an administrative staff to see to the provision of houses and other statutory services, the upkeep of the town and the levy of rates. The Town Clerk and the Chamberlain are part-time employees who devote a few hurried hours weekly to the affairs of the burgh, and the burgh surveyor is also the local plumber.

There are many small burghs like Queensferry with populations even below 2,000, as in some of the fishing burghs of East Fife, or in New Galloway with its tiny population of 293, and its rateable value of £3,310, authorities which must "call for a 2d. rate/

(4)
 rate to buy a typewriter." It seems wrong and wasteful to retain them on what are very limited grounds. It is, moreover, an easy matter to form new small burghs - an application to the sheriff by twelve or more electors may result in his fixing the boundaries of a "populous place" and declaring it to be a small burgh, as happened in 1958 for example in the case of Bearsden. A population of 2,000 is enough to justify the title "populous place", and lead to the setting up of yet another miniature local council with insufficient resources and non-specialised staff, sure of nothing except their desire to be independent and run their own affairs.

(5)
 The grant implications of such a breakaway are worth underlining. By its very lack of resources, such a newly-formed small burgh could attract equalisation grant to itself and away from the county of whose landward area it previously formed a part and over which the grant was more evenly distributed. Conversely, if its resources were high enough to bring it above the standard it would receive no equalisation grant at all, although its ratepayers may have formerly participated in the county allocation. This latter position arises in the case of the new small burgh of Bearsden referred to above. The point is that any change in the existing areas must automatically have its effect on finance and may well lead to unexpected results as far as grant is concerned.

Essentially the same problem may be examined from the point/

(4) Hansard 10.12.57.

(5) Local Government (Scotland) Act, 1947. Sec. 133.

point of view of individual services, certain of which would possibly work with greater efficiency if released from the necessity to operate within their present sometimes unnatural local boundaries. An example of this is the police service, for which there is much to be said in favour of a regional organisation.

In any serious attempt, then, to provide a well devised system of local government finance in the future it will be necessary to settle three questions first, namely,

- (a) Which services will Scottish Local Government be required to administer?
- (b) How best shall local government areas be fixed?
- (c) Which services will best be handled by which type of area?

To illustrate the point we may refer back to the problem of local variations in costs, which, as we have seen, make any true uniformity between authorities non-existent. In two large burghs the cost to maintain a child, for example, may be quite different; we could introduce uniformity by an equalising contribution. Alternatively, if these authorities were merged in a large administrative county or if the service itself were taken over by such a county, the disparity would be spread and would be less anomalous.

In the meantime, with areas and functions as we have them, the importance of really effective equalisation of needs and resources is emphasised. Equalisation in itself cannot remedy/

remedy an imperfect division of areas and services, but it can do much to smooth out the effects of such a division.

On the grounds of economic efficiency, there would seem to be an excellent case for larger administrative units of local government - a movement paralleled in the fields of industry and commerce, though here the basic considerations are essentially different. At some sacrifice of tradition and local individuality it could be argued that the time for parochial finance has passed, and that a new approach to local administration must be attempted.

THE
TREND
TOWARDS
LARGER
AUTHOR-
ITIES

In recent years it is true that, under stimulus from the central government, there has been increasing resort to amalgamation through joint committees. Powers in this matter are simple and uncomplicated; any two or more local authorities may combine for any purpose in which they are jointly interested. Moreover, the responsible Minister is himself given power to direct combination by order if, after enquiry, it seems to him that this would be in the public interest.

(6)

These combinations are particularly useful in the case of certain specific services such as Fire, Police, Children and Water, but though they are indicative of the tendency towards larger groupings, they go only a little way in the required direction. There must, too, result a lessening of administrative control/

(6) Local Government (Scotland) Act. 1947. sections 119-120.

control, indeed of public interest, where such ad hoc arrangements operate.

What is needed at the present time is a long, hard look at the local government system, and an objective reappraisal of its administrative boundaries and the functions carried out within those boundaries, and in assessing the worth of the present grant system it is necessary to relate it to possible developments in this direction.

Reform along such lines has been under discussion for a number of years, although in Scotland the same urgency has not been attached to the matter as in the rest of the country. Scotland, is, of course, essentially different from the rest of the United Kingdom in these matters with the mass of her population clustered in the lowland industrial belt, and the remainder spread thinly over the rest of the country; with her Highland problem and the quite special features presented by the tangle of islands that circle her; with her preoccupation with remoteness. South of the Border there is nothing like this.

In England, the government, after exhaustive consultation with the representatives of the local authorities, is at present engaged in preparing to implement recent legislation⁽⁷⁾ designed to bring the local government system up to date, and since it is possible that Scotland may wish to take the opportunity of similarly reviewing her system, it may be useful here to outline what/

(7) Local Government Act 1958. Part II

what has been done in England and Wales.

Under the Local Government Act of 1888, a borough could be granted county borough status if it had a population over 50,000 and counties could extend their boundaries by consent of the Local Government Board, confirmed by Parliament.

(8)
Later, in 1926, as a result of the Onslow Commission's recommendations, 75,000 was stipulated as a minimum population and the creation of new county boroughs was to be effected by Private Act of Parliament. County Councils were to review their areas at specified intervals and recommend to the responsible Minister of the Government any changes thought fit in county district boundaries. Between 1931 and 1947 many small authorities were amalgamated as a result of such reviews.

In 1945, a Local Government Boundary Commission was set up, but having made certain proposals which were not at that time acceptable to the Government, it was dissolved in 1949. The question of reform still remained, however, and under pressure from the local government representatives in England and Wales, the government proceeded to a review of the areas and status of local authorities. (9)
The government's proposals, which have since been carried into effect by the Local Government Act of 1958, were to set up separate Local Government Commissions for England and for Wales to make appropriate recommendations as to reform. It will be/

(8) Local Government (County Boroughs and Adjustments) Act, 1926.

(9) Areas and Status of Local Authorities in England and Wales.
Cmd. 9831. 1956.

be the task of these Commissions to consider the division, amalgamation, alteration and extension of counties, hear applications for the promotion of boroughs with populations in the region of 100,000 to county borough status, and for the extension of the boundaries of existing county boroughs. On the basis of their recommendations the Minister of Housing and Local Government may submit to Parliament Orders giving effect to them.

Any wholesale reform, therefore, is likely to be spread over a considerable period and to proceed piecemeal. It is, however, intended that each Order presented to Parliament should cover a substantial portion of the country - a so-called special review area - so that an overall assessment can be made of the effects of the proposed changes, with provisions for standstills over a period of years after each issue in a particular area has been settled.

Of particular interest to Scotland in these proposals for reorganisation are the views of the government on the smaller authorities, for this as much as anything, with the possible exception of sparsity, is Scotland's problem. These small authorities are in a special position because of their Charters, and it is the government's view that "every effort should be made to preserve, so far as possible, their identity and dignities." This view, however, should not preclude amalgamation with a larger authority if, after enquiry, the Minister gives his specific consent to the alteration.

So/

So far as Scotland is concerned the trend towards larger groupings would be likely to result, over the next twenty years, in the dissolution of a number of the smaller burghs, with a resulting extension of the boundaries of counties and counties of cities. This would normally be carried out under existing procedure; ⁽¹⁰⁾ by agreement between the councils concerned, and following a poll of the local electors, a petition would be presented to Her Majesty in the case of a royal burgh, or to the Secretary of State in other cases, and a confirming order, ratified by Parliament would follow. The small burgh would then merge into the landward area of the county and would lose its separate identity.

It will thus be seen that agreement between the authorities is the essence of these arrangements; unless a small burgh is a willing party it would be extremely difficult to dissolve. If, however, the local electorate could look forward to reduced county rates, partly because the county, being a much larger organisation, could carry out their functions more cheaply, partly because the county might be prepared to operate a system of differential rating for a time at anyrate, and partly perhaps because the county as a whole was below standard and so received the benefit of substantial equalisation grant, then there would be an obvious incentive to willing dissolution.

At all events, as has been remarked, no change of this nature can fail to have its effect on finance. The inhabitants of

(10) Local Government (Scotland) Act 1947. Section 134.

of a dissolved small burgh are likely to be either better off or worse off in terms of grant participation, and this factor FINANCIAL IMPLICATIONS is bound to weigh in any negotiations towards integration.

In a discussion concerning the viability of existing local authorities the question is inevitably raised: is there an optimum size for the local unit? Population in itself, of course, is but one of the factors which have to be thought about; (11) equally important are the other criteria already referred to. But since throughout the discussion it is individuals with whom we are primarily concerned, population figures may provide a convenient rule of thumb. Particularly is this of importance when it is recalled that population is the main criterion in general grant and so will influence any authority's share in the grant.

A reasonable minimum size for a small burgh, for instance, might be 10,000, other factors being considered, while 20,000 might serve as a guide for large burghs. Population densities of this order would probably be able to provide rateable values on the average capable of supporting the required administrative staffs. Counties of cities, as we have noted, are considered at the present time to require populations of not much less than 100,000 - double the requirements of seventy years ago. All our Scottish counties of cities have greater populations than this. Some have considerably more, to the extent that, unable to spread its boundaries further, a city may find itself obliged to spill some of its boundary population over into the conjoining authority's area. This problem/

problem has for long been acute, for example, in the Glasgow area and in the Clyde valley generally, where the city of Glasgow has used the powers given in the Housing and Town Development (Scotland) Act 1957 to enter into overspill agreements with receiving authorities as far afield as Dunbar and Stranraer so as to provide housing accommodation and other services for its population furth of its own boundaries, a clumsy administrative expedient which cannot do otherwise than aggravate the already difficult financial position, and emphasise the urgent necessity for a general review of local boundaries in Scotland.

A similar situation, too, will arise where new towns, such as those at Glenrothes, Cumbernauld and East Kilbride, are sought to be developed and efforts are made to attract to them new industry and existing populations from other areas. From what has been said it is obvious that planning of this kind must be done with a clear understanding of the financial repercussions well in mind, for apart from the resulting shift in rateable value and population, there may be an equivalent shift in grant eligibility.

This thought leads us to the proposition that general grant makes it necessary to consider not just a simple financial relationship between the central government and each individual local authority, but the far more complex financial relationships which exist between authorities inter se. These are far-reaching and difficult matters which would in any case form the subject of an entirely separate enquiry; we are here concerned primarily with the grant aspect of the question. It is likely to be the case, however, that no one authority which finds itself involved over the next twenty years in these problems of extension, dissolution, reorganisation and overspill can have at its command the technical knowledge and information required to form a complete/

complete and overall impression of the effects of change.

For this reason, it would seem logical to set up a permanent Scottish committee on local government finance which would collect the statistical information necessary and be prepared to give a detailed analysis, in each revision arising, of the probable results and repercussions, financial, social and economic. There is no such committee at the present time, although the Scottish Home Department, in consultation with the local authorities, would no doubt attempt some analysis along such lines in major cases. This will hardly be enough during any possible forthcoming period of reform. A committee which meets once a month and which is composed of members who can devote only a small part of their time to its problems, and who are in any event liable themselves to change, is unlikely to be effective for the purpose. What is required is such a committee organised by the local authorities themselves, but fully supported and assisted by the central government, and until a liason committee of this kind exists we shall be working to a large extent in the dark as far as local finance is concerned.

There remains the question with which we began, that of the usefulness of local government in the reformed state envisaged. As was indicated, there seems little doubt that the local government system is useful enough to retain.

THE
ROLE
OF
GRANT

But is it sufficiently dynamic to give the best results of which it is capable? Such results can be obtained only if those on whom the system depends, the local electors, are prepared as a civic duty and as a right to take a keen and critical interest in the running of the system. If they are not the system may continue to work, but it will lack the life and driving force which/

which should be its mainspring.

It is true to say that many local councils have this driving force behind them; attendance at their council meetings reveals a vigour in the handling of local affairs that is altogether healthy and desirable. There are still citizens who are public spirited enough to perform these duties voluntarily, and they are supported by staffs who are second to none. There are other councils whose members have remained for years in office without contest, councils, too, where it is well nigh impossible to persuade local inhabitants to stand for election, where council business is largely a matter of routine, and where the local electorate is so apathetic at election time as to show polls of under thirty per cent. It is dangerous to generalise in these matters; the most that can be said is that some authorities are good and others are bad.

How to encourage local electors to take a fresh and continuing interest in their affairs? Exhortation alone is likely to be valueless; there must be some more compelling spur, and this spur is finance. If the individual feels that by his own positive action he can influence the amount he pays out in rates, he will be led to take that action.

It was partly with this end in view that the new general grant arrangements were drawn up, for by giving local councils increased financial independence in the spending of grant monies it is hoped to revive that interest of the individual which has often been absent/

(12)
absent up to now. Given such interest the problem of the form of local government may well solve itself.

Some critics of the general grant would take this to be a naive view. The introduction of the new grant, they would say, simply represented a rather shabby attempt on the part of the government to throw off their responsibilities on to the local authorities, at the same time as effecting economies. This view is not acceptable.

General grant is part of the future pattern of a new and more efficient system of local government, and as much as the revision of boundaries and the building up of more viable local units, it is designed to bring new life into a system which was in danger of becoming stale. Its success or failure in this respect will decide whether its extension is justified.

(12) Local Government Finance in Scotland, p.3. Cmnd.208.1957.

9. - GRANT SYSTEMS ABROAD

I

In searching about for some measure of perfection in systems of administration it has often been customary in the past to look at the ways in which similar problems are dealt with in other countries. Such comparisons may be valuable in suggesting new approaches and in affording fresh points of view on topics which over the years have been seen always in the same context.

COMPA-
RATIVE
LOCAL
GOVERN
MENT

In 1956, for example, the Royal Institute of Public Administration carried through a very comprehensive research study which culminated in a published work, a supplement to which described and compared the local financial systems of eleven countries abroad. At first sight it would here seem reasonable to extend these enquiries in relation to systems of grant over a wide variety of these countries.

Further reflection, however, leads to the conclusion that the grant problem in this country is unique in that it depends primarily upon the political and social system of the country as reflected in its system of local administration - systems which have evolved historically and which are now part of our life and tradition. If it were ever possible to wipe the slate clean and start afresh it is likely that our system might be differently arranged.

As/

(1) New Sources of Local Revenue, 1956 - Royal Institute of Public Administration Research Publication.

As things are, however, this is hardly possible, and the fact remains that our systems are in very few cases directly comparable with other systems elsewhere.

In most of the Commonwealth countries, for example, direct government grants to the local authorities are of relatively small importance, for the reason that the local government system itself has not been developed to any great extent. In Australia and New Zealand local government has very limited functions, the main services such as Education, Health and Police being provided either by the central government or by delegated "ad hoc" boards. Even in South Africa the central government contributes in grants to the various authorities of the Union a mere 7% of their annual current revenues.

Then, too, in certain of the more advanced European countries where grant systems are well established, useful comparison is made difficult because of the absence of a rating system upon which our own grant system so closely depends.

How, then, do such countries finance their local government expenditures? A general tabulation of these sources can be given, as follows:

ADDITIONAL
SOURCES OF
FINANCE

Local taxes on land and buildings.
Local taxes on Income or Profits.
Miscellaneous minor local taxes.
Assigned tax revenues.
Surcharges on State taxes.

Central Government grants.

Fees, rents, interests and charges
for services.

Their/

Their relative importance is seen from the following comparison:

	Den- mark	France	Hol- Land	Norway	Switzer- land	W. Ger- many	Scot- land
	%	%	%	%	%	%	%
Local tax on land and buildings	12	-	-	2	-	10.8	37
Local tax on Income and Profits	34	-	-	65	58	32.4	-
Minor local taxes	-	5	4.2	1	2	4.2	-
	46	5	4.2	68	60	47.4	37
Assigned Revenues	4	-	7.3	-	-	-	-
Additional percentage surcharges	-	48x	5.2	-	-	-	-
Direct State Grants	36	28	55.6	23	15.5	20.2	36
Other income (fees, rents, interests, and trading profits)	14	19	27.7	9	24.5	32.4	27
	100	100	100	100	100	100	100

X includes 23% in respect of surcharge on the State "Value added" tax.

The year 1953 is shown for all countries to preserve uniformity.

From an examination of these figures it is possible to say that while in the United Kingdom local authorities finance their activities from rates, grant and other income, the continental countries listed above have the following additional sources of/

of local income:

- (a) local taxes on income and profits.
- (b) minor local taxes.
- (c) assigned revenues.
- and (d) surcharges on State taxes.

The volume of each of these additional sources varies considerably from one country to another - in France, for example the surcharge system of "Centimes additionels" is of main importance, while in the Scandinavian countries it is the local income tax which provides the authorities with much of their revenue. Since, however, it will later be necessary to consider the possibility of adopting any of these methods in this country we must now examine them more closely. For this purpose two countries with dissimilar systems have been selected because between them they combine all the additional sources of revenue mentioned, and the financing of local government within these countries will now be described.

These are Holland and Norway.

II

In Holland, where local government is organised nominally on a two-tier basis of 999 municipalities and 11 provinces, there has been considerable experimentation in the past in the finding of suitable methods of local finance. At the present time these methods are quite varied and include three of the "additional sources" we have cited.

DUTCH
LOCAL
REVENUES

Apart from service charges, fees, interest and trading profits, accounting in all for some 25 per cent of local revenues, the/

the sources of municipal finance have been as follows:

	Local Taxes	Surcharges on State Taxes	Direct Payments of two State Taxes	Enterprise Tax	Payments From Municipal Fund	Total Income From Taxes
1930	68.6 ^x	23.8	0.3	-	7.3	100
1932	11.1	34.9	19.5	-	34.5	100
1943	13.6	28.8	0.1	17.9	39.6	100
1950	9.8	12.3	0.3	24.3	53.3	100
1953	7.3	9.0	6.2	-	(56.8 (gen (eral) (20.7 (spec (al) (percentages)	100

X includes local income tax, discontinued in 1929.

In the table items of tax income are grouped together. The relative importance of each group is apparent over the span of years chosen. The decline in local taxes, and the corresponding increase in State-administered municipal fund subventions, can be seen only too clearly. Since these increasing subventions from State resources are directly reflected in ever-increasing State control and intervention in local affairs, the trend of the figures reflects a growing cause of contention.

Perhaps the most striking fact brought out by the table is the very small contribution nowadays made by purely local taxes: a point which will be referred to later. Meanwhile, these local (3) taxes may be considered in further detail. They are as follows:

Surcharge on two state taxes.	Advertisement tax.
Street and canal tax.	Dog Tax.
Benefit Tax.	Non-residents tax.
Fire Insurance tax.	Hotel licence fees.
Entertainment tax.	Liquor licence fees.

Surcharges/

(2) Oud Committee Report, November, 1954.

(3) See Commissie Voor die Techniek der Gemeentelijke Belastingverordeningen, 1956.

Surcharges, besides yielding the major part of SURCHARGES AND ASSIGNED REVENUE the local tax income of the municipalities and the whole of that of the provinces, are the only local tax at all comparable with the local rates levied in the United Kingdom. Municipalities are permitted to make these surcharges on the land tax and the personal tax - two taxes levied by the State but collected locally. The principal and the surcharge are both paid by the State direct to the municipalities, as assigned revenues.

Land Tax is assessed on owners of both vacant and built-up land, the basis being valuations fixed on average values over the period 1875-81 for vacant land and 1892-96 for built-up land, and the rates of tax being 6 per cent. and 4.86 per cent. of these respective valuations. The comparative method is used in fixing values for new properties, and revaluations are made only if there have been substantial improvements. The municipalities may levy a surcharge on the land tax up to a maximum of 30 per cent. of the yield of the tax on vacant land and up to 60 per cent. of the yield of the tax on built-up land. The provinces may levy a surcharge on the land tax up to a maximum of 60 per cent.

The personal tax is levied on occupiers of all premises other than offices, shops and factories. The basis of this tax is the annual hypothetical rent on a comparative test, or 6 per cent. of the capital value of the property. Certain deductions are made from the assessed value according to the type of municipality involved. The tax is levied at the rate of 4.25 per cent. plus 1.5 per cent./

per cent. on the sales value of any furniture on the premises, less a deduction of 300 guilders. An allowance is made for children. The municipality may levy a surcharge on this personal tax, but at a rate exceeding 80 per cent. of the yield of the tax only if it is also levying the surcharge on the land tax at the maximum rate. In fact a few authorities are now levying surcharges at rates exceeding 200 per cent.

The Street and canal tax is an optional municipal tax which has been increasingly used. It is assessed on the owners of properties adjoining public roads or waterways, the purpose being to raise a contribution towards the maintenance of streets and canals. The valuations for this tax are based on rental values of the frontaging sites, either vacant or built-up (as for land tax).

MINOR
LOCAL
TAXES

The benefit tax is levied on owners of properties who have derived direct benefit from public works improvements. The tax may be charged only for a maximum of thirty years from the completion of such works.

The fire insurance tax is levied by the larger municipalities on properties as a contribution towards the cost of the fire brigade service.

The other optional taxes which are available to the municipalities include entertainment tax, a dog tax, a tax on certain advertisements (not including those which appear in newspapers), a built-up sites tax and a non-resident tax on persons who spend at least ninety nights in the year in a municipality to which/

which they do not belong.

There is a noticeable absence of elasticity and importance about all these local taxes. It is impossible for a municipality, for example, to balance its budget by simply raising the rates of tax - it must look to the central government for assistance, and municipal administration tends in consequence to lose much of its authority and any real independence.

There is in existence a fund called the municipal fund, fed by a percentage of the proceeds of a number of State taxes and used to make advances to the municipalities. This fund is of central importance in Dutch local finance. It was created in 1929, at the time when the municipal income tax was discontinued because it was in conflict with the State income tax and because of its lack of uniformity in assessments from one section of the community to another.

THE
MUNICIPAL
FUND

The Municipal Fund is administered by the Ministries of the Interior and Finance with the assistance of an advisory council, which includes representatives of the local authorities. Each year the States General - Parliament - fix the percentage to be taken from the following State taxes and paid into the Fund:

Income tax	Directors' tax
Property tax	Turnover tax
Corporate tax	Import licences
Salary tax	Excise duties
Dividend tax	Stamp duties
Registration duties	Succession duties

The percentage varies from year to year - for 1956, 11.7 per cent. was proposed, with an additional 4.15 per cent. in lieu of a/

charge on the enterprise tax formerly accruing to the municipalities. Any balance left after distributing the fund among the municipalities is retained in the fund as a reserve.

For 1955, the total tax and grant income of the municipalities was estimated as follows, and the magnitude of the transfer from the Municipal Fund will be observed: ⁽⁴⁾

(in thousands of guilders)

Proceeds of land tax...	30,572
Surcharge on land tax..	53,173
Proceeds of personal tax ..	24,662
Surcharge on personal tax..	37,300
	<u>145,707</u>
Local Tax Income...	67,000
Supplementary payments in lieu of discontinued enterprise tax ...	15,679
Municipal Fund payments:	
General Payment ...	680,147
Tax Payment...	260,779
	<u>940,926</u>
	<u>1,169,312 (4)</u>

The present method of apportioning the municipal fund among the municipalities is by means of a general payment and a tax Payment: /

(4) Oud Committee Report 1956.

payment:

(a) General Payment

(1) A payment towards the salaries of the Burgomaster and a secretary up to a maximum payment of 4,500 guilders, or, for municipalities with a population of less than 5,000, up to a maximum payment of 6,000 guilders or 75 per cent. of the salaries, whichever is the smaller.

(2) A payment of 125 per cent. of the general and special payments received by the municipality in 1952. This payment is calculated partly on average expenditure per inhabitant on education and public assistance in 1939, 1940 and 1941. It can also be used to cover a deficit in the budget of a municipality. The grant is given as a fixed sum for every inhabitant, though the sums vary from one municipality to another.

(3) A further special payment may be received by a municipality which proves that it has incurred special expenditure or made important basic changes; the grant is given on a so-called subjective basis. The payment is investigated by the central government.

(b) Taxation Payment

This payment is designed to replace the former surcharge made by municipalities on the discontinued enterprise tax. It is calculated as 125. per cent. of the yield of the surcharge in 1950, less 40 per cent. of the yield of the land and personal taxes, and is given on a per capita basis.

These methods of apportioning the municipal fund are generally acknowledged to be inadequate, mainly on the grounds that they do not adequately reflect the individual requirements of municipalities which vary widely in size and type, and a better measurement of needs is looked for. The issue is one about which there has been a great deal of argument, and the argument proceeds.

Although a permanent advisory committee on municipal finance exists to assist the appropriate government departments, the Central Government

ATTEMPTS
TO IMPROVE
THE SYSTEM

appointed in 1946 a special committee under the chairmanship of Professor P. J. Oud, the then Burgomaster of Rotterdam, whose terms of reference were to inquire whether it would be possible and practicable to effect a division of financial burdens between the central government and the municipalities, or whether changes in the division of functions should be made by transferring a number of municipal services to the central government.

The Oud Committee, which includes representatives of the provinces, the municipalities, and the Ministries of Finance and of the Interior, has already issued a number of reports and has made various recommendations. In the first report, issued in 1947, the Committee was unable to recommend any major redistribution of functions because the position at that time was constantly changing in respect of the most important services. It was a period of the most energetic post-war reconstruction, and the Committee felt that government should have access to all possible financial resources. Moreover there was not then enough data on which to base new taxation proposals. The Committee therefore recommended an increased use of the Municipal Fund system and it was suggested that the fund should be financed by a share of twelve national taxes - the taxes earlier referred to - in addition to any other sources of revenue. In short, the block grant system was considered by the Committee to be /

be preferable at that time to higher local taxation or to increased specific grants. These proposals were adopted by the States General and the share of the twelve national taxes was first fixed at 8 per cent.

The later reports of the Oud Committee have been mainly concerned with the share of national income which the Municipal Fund should absorb, and the finding of a formula for its distribution.

In the following table an attempt is made to compare the payments from State resources in aid of municipalities in Holland with similar payments in Great Britain. The figures shown are percentages of the respective national incomes, and while the comparison can only be a rough one, a certain correspondence will be seen.

COMPARISON OF RATE AND GRANT INCOMES

(as percentages of the national income)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>Sources</u>
(a) Holland - Payments to municipalities from the fund, including direct payment of taxes	... 3.3	3.3	3.6	3.6	3.6	3.8	3.9	(5)
(b) Britain - Total grants paid to local authorities	... 2.7	2.6	2.5	2.5	2.6	2.7	2.7	(6)
(c) Britain/								

(5) De financiële Verhouding tussen het Rijk en de gemeenten, 1953-1957

(6) Blue Book on National Income and Expenditure for 1955.

COMPARISON OF RATE AND GRANT INCOMES

(as percentages of the national income)

	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>Sources</u>
(c) Britain - Block grant payments alone ...	0.7	0.5	0.5	0.5	0.5	0.5	0.5	(7)
(d) Britain - Total of all grants plus rates ...	5.7	5.5	5.4	5.4	5.5	5.6	5.6	(8)
(e) Holland - Payments to municipalities from the fund, including taxes, plus yield of local taxes...	4.4	4.3	4.6	4.3	4.3	4.2	4.5	(9)

Up to now it has proved exceedingly difficult to find a proper yardstick of needs in allocating the fund among the municipalities. Indeed, since municipal budgets are drawn up in advance and in ignorance of what will be forthcoming by way of specific grant the tendency is for municipalities to budget for a deficit and hope that it will be covered by an advance from the municipal fund. Central control thus tends to be exercised through willingness or otherwise to cover the deficit. The position is acknowledged to be unsatisfactory - indeed, the Minister of the Interior, in a recent circular, warned municipalities not to draw up their budgets on the supposition that they would be balanced by a special extra grant.

(10)

Recent proposals of the Oud Committee have been for a new municipal/

(7) and (8) Blue Book on National Income and Expenditure for 1955.

(9) De financiële Verhouding tussen het Rijk en de gemeenten 1953-1957.

(10) Commissie herstel financieel Zelfstandigheid gemeenten en provincien: Reports of November 1954 and ...

municipal tax with certain maximum limits at low proportional rates to be assessed and collected by the municipalities. The estimated revenue from this so-called dwelling-place tax would be from 3 per cent. to 9 per cent. of present local revenues. The obvious intention of this new tax is to restore a measure of financial independence to the municipalities, which over the years have more and more tended to rely on subventions from the centre. It is worth noticing that there were five members of the Committee who could not agree with the proposal, feeling it to be an anachronism.

The disadvantages of State control are well recognised, however, and there is a strong feeling that positive steps will have to be taken to restore the balance. Side by side with these new proposals there has been put forward by the Oud Committee an entirely new conception of the municipal fund and the relations between the State and local government. These ideas, which it is hoped will be brought in for 1959 and subsequent years, may be summarised.

1. The municipal fund should be used to make the following payments to municipalities:

(a) Advance payments in connection with:

- (1) the cost of social services;
 - (2) the cost of education;
 - (3) the equalising of local tax income as between one authority and another.
- (It is intended to replace (1) and (2) in the long run by payments directly from the Exchequer.)

(b) A general payment on a sliding scale, but with equalising factors included.

2. There should be an improvement in the share of State resources made available to local authorities.

3. There should be an increase in the range of local tax income of municipalities through the introduction of the new local income tax already mentioned.

In essence, the problem is not one which is unique to

Holland/

Holland. We are as familiar in the United Kingdom with arguments for State control of certain services and the division of financial responsibility between the central and local authorities as we are with the difficulties inherent in a system of block grants and their equitable apportionment over all sections of the community. We have experience of the post-war transfers of functions - for example, the Health Services and National Assistance - from local to central government, with the consequent readjustment of exchequer subsidy. Such readjustments are a necessary concomitant of any major shift in the relationship between local and central functions.

The fundamental problem of grants exists in Holland as elsewhere; specific grants, while helpful in developing local services, are costly and tend to central interference; general grants, on the other hand, while giving the local authorities a freer hand, tend to be inflexible and to fall short of needs.

The responsibilities of every municipality in the Netherlands have increased enormously in recent years, yet their independent revenues are insignificant.

For its own part, the central government, aiming, as a matter of policy, at avoiding over-close State control, has had recourse to block grants relatively fixed in amount. Yet these grants have proved inadequate in the face of ever-rising local expenditure.

III

Local/

Local government in Norway has many points of similarity to the Scottish system and may be more quickly described. The country is divided into 18 counties (fylke) and 64 burghs (byer); within the counties these are some 680 rural districts, or "herredene". In addition there are the two counties of cities of Oslo and Bergen. All these authorities have power to levy a local tax.

NORWEGIAN
LOCAL
REVENUES

The local government system is, by contrast to some of the Commonwealth countries earlier referred to, very highly developed, the total of local government expenditures being some 40% of the total of all central and local government expenditure. Together with the usual services local authorities operate water, gas and electricity undertakings as well as housing, many restaurants and cinemas.

With the exception of the counties, which have responsibility for the main roads, secondary education and health services, raising a local tax on land and buildings to meet the cost, the local authorities have for nearly eighty years financed their activities principally by the levy of a local income tax. Assessments are made and collected by these authorities both for the local income tax and the central government's income tax, and it is interesting to observe that the yield of the former exceeds that of the latter. In fact, the local income tax in Norway was a local tax before it was also adopted as a State tax.

Of secondary importance the burghs, like the counties, must, and the districts may raise money by the levy of the tax on land and buildings. The basis of this local tax is as follows/

follows:

Burghs	Districts	Counties
0.2 - 0.7 of assumed market value of land and buildings. Re-valuation every 10 years.	4 Kroner per skyldmark (a skyldmark is the land valuation unit as fixed and registered between 1872 - 85.)	2 - 5 kroner per skyldmark

Apart from a few very minor local taxes, such as entertainments tax, dog tax and harbour dues, these are the main sources of Norwegian local revenues: the local income tax (65%), and the local tax on land and buildings (11) (2%). The bulk of the remainder of local revenue is derived from grants from the central government (23%), these being mainly specific grants for education, pensions and family allowances, public health and highways.

As well as these grants for specific purposes further grants of a general nature may be paid to particular authorities which have a high burden of local taxation, or which are finding difficulty in maintaining standards. Such payments, which are in effect equalisation grants, are made to the counties and burghs from an Apportionment Fund administered by the Minister of Local Government. The counties then reapportion their share among the districts.

The/

(11) Statistisk Centabyra: Nasjonalregnskap. 1938 and 1948 - 1953, as reproduced in New Sources of Local Revenues (Supplement), 1956.

The Apportionment Fund is fed from:

- (a) 50% of a local surtax on incomes above Kr. 20,000.
- (b) a local surtax on shipping companies.
- (c) payments by the State.
- (d) reinvested interest of the fund.

The local income tax is charged on both income and capital of individuals and companies, and there is a further surtax on incomes above 20,000 kroner per annum. One return for both local and State income tax is made by the taxpayer, and where the taxpayer is resident in one area but derives part of his income from a different area he will be taxed on that part by the second local authority. Tax rates levied are proportional and central approval is required for tax rates on income in excess of 17.5%. Collection is made during the year for that year's tax and final adjustment is made in the following year.

The capital tax is levied at low rates - about 0.4% - on land, buildings and other property, while the surtax rates are from 3 - 5%. In addition, shipping companies are charged to tax at a standard rate for the whole country, the yield being paid into the Apportionment Fund for redistribution as has been described.

In these grant arrangements attention must be drawn to a point of some importance. In Norway where local and central government are possibly more closely integrated than in any European country, and where it may fairly be said that local and central taxes are more consciously based on ability to pay than in the United Kingdom, state grants are still of importance. It has often been assumed in this country that a local income tax would solve all the grant problems, but here, despite the considerable part/

part which the ability to pay principle plays in local finances, the ratio of government grant to total local authority incomes still remains high at 23%. Much of this must be attributed to the equalisation of local needs and resources, coupled with the highly localised nature of central administration.

Holland and Norway, then serve to illustrate contrasting administrative and financial systems which, though differing considerably from each other and from our own, have this in common that they each seem to do the same thing - provide national social services locally.

Is there, perhaps, something we can learn from these systems? For example, can we borrow some of these methods of raising local finance with a view to providing income sources alternative or additional to our own rating system? Could some assignment of State taxes along the lines of the Dutch model be introduced with advantage in this country? The chapter which follows will explore these possibilities; it should be regarded as an extension of the present discussion.

10. - OTHER SOURCES OF LOCAL REVENUES

Earlier in this thesis (1) it was argued that the rating system, while it was well enough suited to its function of providing local finance, was not in itself sufficient. This was so because it was the only system of tax available to the local authorities and thus suffered from the drawback of any single tax - it attracted criticism. "Of all British prejudices, the belief that local rates should never rise, whatever may happen to other prices and taxes, is the most deeply rooted".

It was therefore thought that alternative sources of revenue must be explored, and to this end the previous chapter has described some of the systems of local finance which are found in other countries. As has been seen, local government in these countries enjoys four main additional sources of revenue not available in the United Kingdom, and these are:

- (a) Miscellaneous minor local taxes.
- (b) Assigned State taxes.
- (c) Surcharges on State taxes.
- (d) Local income taxes.

We must now ask ourselves whether any of these could usefully be applied in this country to supplement the rating system, or whether indeed there may not be some other source so far untried. In doing so it will be well to remember that the strength of the British system of local finance, and perhaps its weakness too, is in/

(1) Chapter 5

(2) "Economist" 16.3.57.

in its comparative simplicity - rates, grant and other income. Administrative simplicity is something that should not lightly be abandoned, and this would inevitably be the result if we augmented the rating system with additional minor local taxes.

MISCELLANEOUS
MINOR
LOCAL
TAXES

Some of these have already been described and nearly every continental country has made use of them. In the United States of America, in particular, considerable ingenuity has been shown in devising such sources and their variety can be seen from the following list:

- Entertainments tax.
- Dog tax.
- Street maintenance tax.
- Advertisement tax.
- Non-residents' tax.
- Bicycle tax.
- Poll tax.
- Civic lotteries.
- Retail sales tax.
- Parking meter fees.
- Motor vehicle and petrol tax.
- Hotel occupancy tax.
- Site-value tax.
- Taxes on windows and nameplates.
- etc.

The principal feature of most of these minor taxes is that they raise but a relatively small fraction of total revenues. The administrative inconvenience of assessing and collecting a multitude of such minor taxes, coupled with the irritance to ratepayers, hardly seems to be justified by their possible yield.

This yield moreover is largely inelastic for in most of the local taxes listed above there is little possibility of expansion beyond/

beyond a certain limit. Nevertheless, most of them have from time to time been intensively studied, and sometimes, as for example in the case of the poll tax or the site value tax, hailed as a possible new source. But none of them in itself seems to provide the answer for which we are looking.

In that case, therefore, would it serve our purpose any better to endeavour to have some State tax handed over for local purposes? This, as a method of giving grants, has already been tried in this country between 1889 and 1929, ASSIGNED REVENUES and was proved a failure. This may of course have been simply due to the particular method used in applying the system at the time, although as a control instrument such a method could not compare with present systems. The assignment of State taxes for the purposes of local government is a method which is used, as has been seen, in Holland, where it works well enough. It is curious, too, how the idea of the assignment of revenues persists in the public mind. One still commonly hears the view expressed by many motorists that whereas they contribute in motor taxation over a hundred millions of pounds annually, only a small fraction of this is returned to them through the Road Fund in new roads. As we have seen, specific taxes have not for many years been applied to specific purposes that will benefit the contributor.

It is true to say that the government of this country has not been prepared to risk a second failure in this direction. As the Sorn Committee of 1954 remarked, "the assignment of specific revenues to particular purposes is not in accordance with modern fiscal conceptions." Soon after, the White paper on Local Government/

(3)

Government Finance in Scotland made it clear that the government "do not believe it right to earmark for the direct benefit of local authorities any tax which is now levied nationally." In order to make any scheme of assigned revenues operate satisfactorily it was claimed it would be necessary to give the local authorities freedom to alter the level of the tax locally, which would not be an attractive prospect, and would nullify attempts at equalisation. It is difficult to see why this should in fact be necessary, though it would be understandable in the case of a surcharge on a State tax. On the other hand the whole basis of State grants in this country rests on the idea that they should be paid out of the Consolidated Fund which is fed from the proceeds of many taxes. To divert a given tax from the Fund and switch its product to the localities whence it originated for local purposes could only reduce the effectiveness of multiple and compensatory taxation.

Surcharges on State taxes would carry similar drawbacks for they are in effect a form of assigned revenue. SURCHARGE ON STATE TAXES These drawbacks can be visualised clearly enough if we earmark in imagination a State tax, such as for example the entertainments duty on cinemas with its yield of approximately £26 millions, and allow the local authorities to levy additional percentages upon the yield in their areas, not exceeding a limit of say 5%.

Central control over local spending would be impaired for the/

(3) Cmd. 208. July 1957.

(4) Hansard, 30th July, 1957. Mr. Henry Brooke.

the local authorities would have to have freedom to adjust their own levels of the surcharge. Furthermore, uniformity would be lost for one authority might be levying a surcharge of 3% while its neighbour was raising the maximum of 5%. Then, too, urban authorities would benefit at the expense of rural areas where cinema entertainments were not so well provided. Local budgeting also would be complicated by the parasitic action of the surcharge which would vary with the yield of the principal tax.

Most important of all, perhaps, would be the danger that marginal local surcharge rates would lead to a drop in the demand for entertainment and so endanger the yield of the principal State tax itself.

The idea of a local income tax, however, is a much more attractive one than any of the alternative sources so far LOCAL INCOME TAX. described, and thinking over the choice of methods that could be used to raise local finance, one comes back again and again to the realisation that here in a local income tax is what could be the ideal solution. If such a local income tax were superimposed on the national income tax it is claimed that it would bring the "ability to pay" principle finally into local taxation, and while preserving the independence of local authorities, could eliminate the need for government grants, apart from needs equalisation contributions.

The tax could operate in one of two ways. Either the rating system could be dispensed with and replaced by a local income tax/

tax, or the rating system could be retained and supplemented by a local income tax. The first of these two methods would be preferable. This is, of course, no new thought; local taxation committees have for years lifted up this particular stone to see what was underneath it, and in each case appear to have quietly dropped it again, and turned to the rating system with a mixture of relief at what was known, and regret at foregoing what was unknown. There have been several notable schemes proposed for a local income tax, but the necessary next step has not so far been taken. The fact is, the conception of a local income tax is so radical and would involve such wide repercussions in other spheres of public finance that the greatest of caution would need to be used in putting it into practice. As always, regard must be had to the break-even point of administrative advantage and political expediency.

A number of difficulties can readily be visualised.

For one thing the idea of progressiveness, despite its general acceptability, is not necessarily a principle which can go unquestioned; it is not a fundamental law, perfect in itself. Objections could be made, for example, that it is conducive to political irresponsibility and that it weakens incentives. "The most distinctive and technical arguments advanced in its behalf are the weakest. It is hard to gain much comfort from the special arguments, however, intricate their formulations, constructed on notions of benefit, sacrifice, ability to pay or economic stability. The case has stronger appeal when progressive taxation is viewed as a means of reducing economic inequalities."⁽⁵⁾

Secondly/

(5) The Uneasy Case for Progressive Taxation - W. J. Blum and H. Kelven, University of Chicago, 1953.

Secondly, in introducing a local income tax it would be necessary to overcome the confusion of interests that would arise between the Inland Revenue and the local authorities, as well as the effect on the public mind of burdening it with yet another income tax. Less serious, perhaps, would be the technical difficulties of assessment where an individual had income sources and residence in more than one local tax area, and the fact that many would avoid paying anything as their incomes would be too small. Then, too, a grant system is in itself a government control which would have to be sacrificed if it were to be replaced by local income taxation.

There are many other such difficulties - which in the past have been described as "insuperable" - difficulties which would have to be settled before any local income tax could seriously be considered. If we accept the objections, however, there is little doubt that the principle is right, and there seems no reason why an exhaustive study of the possibilities should not be made at government level with long term aims in mind. The research team set up by the Royal Institute of Public Administration, after a detailed examination of alternative sources of local revenue, recorded their opinion in 1956 that a local income tax at low rates based on personal incomes was a feasible alternative to the rating system, supplemented by a local entertainments tax and the retention by the local authorities of motor licence duties.

Proposals therefore are not lacking as to what might constitute/

constitute alternative sources of revenue to the local authorities. Some of these - the civic lottery, for example - may be CHOICE
OF
SYSTEMS politically undesirable; others, for a number of good reasons, are unsuitable. One or two might be made to work, but the difficulty is that this is not a choice between good and bad systems, but between systems which each have their own peculiarities and imperfections, so that in giving up the rating system in favour of, say, a local income tax, we should be exchanging a working system whose imperfections we understood for a workable system with certain good features and some imperfections too.

This choice between the lesser of two evils is typical of the problem, where systems of finance are never wholly ideal.

The Scottish Valuation and Rating Committee of 1954, which is in many ways the key to subsequent developments in local government finance in Scotland, found, after exhaustive enquiry, that it was "unable to propose any alternative or supplementary method of raising money for local authority expenditure", and this view was taken in issuing the White Paper on Local Government Finance in Scotland in 1957, when it was made clear that "the government, after thorough investigation, do not consider it practicable to devise a satisfactory new source of local revenue."

These views, founded as they are on specialised sources of information and arrived at by expert opinion, must command respect. They are moreover long-term views, which are not intended to be modified for years, and they leave us with the rating system/

system supplemented by government grants.

If, then, there is to be no new source of local finance, can the existing rating system itself be improved so as to give a greater yield? The most obvious first line of approach here would be to abolish the derating provisions of the Local Government Act of 1929. At that time protection was afforded to agricultural properties by exempting them from liability to rates to the extent of seven-eighths of gross annual value, while industrial and freight transport properties were derated to the extent of 75%. Both industry and agriculture were then in a depressed state and the local authorities were partially compensated for this subsidising device by having their rate losses thereby brought into DERATING the block grant calculation. Over the years inflation ate into this compensation, which was discontinued in any case when the equalisation grant of 1948 was brought in.

There is no longer any real justification for the protection of either agriculture or industry, and even if there were, there is no reason to use the rating system for the purpose; The national income tax could equally well be used, if it were necessary.

The Local government and Miscellaneous Financial Provisions (Scotland) Act, 1958 provides for industrial and freight transport re-rating to 50% of net annual values, which on the basis of rate poundages for 1956 - 57 will provide in Scotland an estimated additional rate revenue of about £2.3 million. The increased rates payable by Industry will of course remain as an allowable deduction/

deduction for income tax and profits tax purposes, so that the yield of national taxation will be reduced by an estimated half of the increase in rate income. The government proposes, in consequence, to reduce the level of grants to the local authorities by two-thirds of this estimated £2.3 million, leaving Scottish local authorities with a net gain of about £750,000.

One incidental effect of this increase in rateable resources will be to reduce the total of Scottish equalisation grant which is at present geared to the amount payable in England and Wales, but instead of this reduction affecting areas which are likely to derive benefit from industrial re-rating the reduction will be applied generally according to the present equalisation grant formula. It is true that in fixing Scotland's total of general grant this reduction has been taken account of but there is no correspondence between the two distribution bases. This adds point to the argument in Chapter 7 for bringing equalisation grant on to a United Kingdom basis as soon as possible so that future re-rating will not require the same untidy treatment.

Partial re-rating is not enough. Derating is an anomaly and an anachronism. The rating system should not be burdened in this way, and if it is to be the only tax available to the local authorities then it should be a clean tax without such complicating features. Both agriculture and industry should be fully re-rated, and if there must be a subsidy it should not be a "hidden" subsidy, but one borne out of national taxation. On this occasion the government are able to justify the two-thirds reduction of the local authorities' estimated gain from the partial re-rating of industry/

industry on the general grounds that the level of grants to local authorities is currently too high in any case. This argument will not be a good one in future revisions of the derating provisions.

There are undoubtedly other ways by which the rating system could be improved, and a number of schemes AN IMPROVED RATING SYSTEM have been proposed over the years. One suggestion which seems worthy of closer examination is for "rating on ability to pay", a system developed by Mr. George Mitchell in a lecture at Dudley on the 9th October, 1954, under which the local assessment on the individual would be based on a weighted rateable value, the weighting being arrived at from his income and personal commitments. In this way the rating system, while being retained, would have a degree of progressiveness brought into it which would at least make the local authorities feel they were causing less hardship to the individual in deciding to increase the rate, and would at the same time make them less dependent on central grants.

Another less revolutionary approach would be to re-examine the discretion given to local authorities in the Valuation and Rating (Scotland) Act 1956 to give relief for charitable occupations. It seems reasonable that if a charity occupies premises it should pay occupiers' rates thereon, for if these premises were occupied by some other person there would be no doubt as to the charge. Any remission of rates made by the council at the request of the charity's trustees simply represents a diminution of resources and casts the burden on other ratepayers.

Some councils refuse to exercise this discretion. In

1958, for example, Dunfermline Town Council refused to lower the rates on buildings occupied by the Carnegie Trust and at that time it was stated that "it is the general policy of the Council not to grant a remission of rates to anybody whatsoever."⁽⁶⁾

This view seems the right one. The rating system should not be eaten into by these subsidies which are never too clear to ratepayers. If a contribution is to be made to charities it would seem better that it should be a straightforward payment, preferably by the individual, rather than one in the guise of rates relief.

It is not the intention of this thesis to attempt to discover new ways of providing local income; this is a separate problem. But insofar as the problem bears on the grant system it is necessary to record the opinion that it must be tackled and with some degree of urgency. We should now be looking ahead twenty or thirty years, visualising the administration of local services which will then exist and sifting out the alternative financial systems to fit that administration, so that we find the best one.

(6) Compare with the decision in the Mersey Docks and Harbour Board Trustees V. Cameron (1865).

11. - CONCLUSIONSI

In attempting now to bring together the multitude of considerations which taken as a whole make up the grant system as it applies to Scotland it must first be stated as clearly as possible what we mean by two ideas which are very often the subjects of misconception. These are, firstly, the nature of local government, and secondly, the nature of the relationship between Scotland and England and Wales.

Because these are ideas rather than terms they do not lend themselves to rigid definition, and all along people tend to find shades of meaning in them to suit their own purposes. Thus it is that in approaching the problem of the financial aspect of the central/local relationship we so often find ourselves talking at cross purposes and discussing matters which mean different things to different people.

To a responsible official in a central government department in London, there might seem no great difficulty in this; Scotland is simply a part of the United Kingdom and the local government system is a form of second-line civil service with delegated authority to carry out services which by and large are a national responsibility. For theoretical purposes our hypothetical official might be prepared to modify this view to think of these relationships as a "working partnership."

To/

To the elected council of a Scottish local authority, by contrast, the position may be seen in rather a different light. To them Scotland may be viewed as a quite separate country with its own history, traditions and institutions; there may well be a certain mistrust of "Whitehall" and a hostility towards things English. The local government system, too, may similarly be regarded as pure local self-government, the administration of which is regulated by legislation peculiar to Scotland. These are both extreme views, but somewhere in between them no doubt lies the popular conception.

In reality, both central and local government have the same primary aim - the common good. Since for certain purposes this goal can only be achieved locally and since excessive centralisation is in any case politically undesirable, a local government system becomes a necessity, one which is naturally subject to the control of central government as represented by Parliament from which it derives its powers to act. Here, then, we have the core of the relationship, which is seen to be truly a partnership, but one in which the central government must inevitably be the dominant partner.

In any close relationship of this type friction will occasionally develop between the partners, and considerable tact and understanding will at all times require to be exercised, particularly/

particularly where, as in this case, one of the partners is not a single body but a group consisting of councils, each with its own local interests coloured by past traditions and present needs. These issues should not be allowed to cloud the essential principle upon which the system rests.

Feelings of nationalism or parochialism, too, however unjustifiable, are as much as anything a dislike of centralised administration which is deep-rooted in our people. Democracy is more than a political theory; it is a basic need. Local independence, then, is no mere catchword, but a prerequisite of that form of effective government which will be acceptable to all.

If, then, there is to be local independence to manage local affairs under the guidance and supervision of central government, this independence must imply the maximum possible freedom to act and must be accompanied by a corresponding freedom to finance these actions, for it would be useless to ask for local interest unless this was stimulated by financial considerations. Without such local interest there can never be dynamic administration.

The local government system which has been postulated in these few sentences, though fundamentally a simple one, is in practice surrounded by complications. Yet it is a good one, and, for our society, there is an inevitability about it that betokens permanence. As a system it depends, as has been shown, on four requirements, namely:

- Central supervision
- Central understanding of local needs
- Local independence and interest
- Local financial independence

We may now move forward from this position to observe the working of such a system in the practical administration of the services.

II

The education service provides us with a ready illustration of the more detailed operation of the system described. Here is a service which has strong claims to being considered a national one; It would not be difficult to press such an argument home. At the same time there is undoubtedly a local flavour about the service, the more so when it is remembered that the administration of education in Scotland follows a different pattern reflecting different local needs to that found in other parts of the country. If it were expedient to overlook this "local" element, education could easily enough become a nationalised service and be financed wholly out of national sources.

But it is not expedient; education is the largest of the local government services and without it the local government system would be reduced to a shadow without substance. And, since the local government system is to be regarded as a political necessity, there can be no question of dealing with education save on the basis of a central/local partnership.

Therefore, finance must be provided out of national and local taxation in an agreed and equitable manner, decided on the results of past experience of what sharing ratio achieves the intention required, and grants will be paid by the government for the purpose. How these grants will be distributed will depend on circumstances obtaining at any particular time - the need, for example, to encourage the development of the service, or the recent necessity to limit, or at any rate to control expenditure; any payment/

payment, too, is capable of being made in such a way that additional purposes are served, and this practice is justified if it achieves a primary aim. Historically, grants have been used for two purposes - for the development of services and for the relief of rates, and the tendency has been for the latter to be consolidated periodically.

Now, it has to be kept clearly in mind that while the State's share of the cost of the service is met from national taxation, which is uniformly based on accepted principles, the local share is met from rates. These, being a single tax, suffer from a number of drawbacks, but given an efficient system of resources equalisation and assuming the rating system to be improved by re-rating and in other ways, they would work well enough.

In any case, rates may be considered for this purpose as part of the total national tax structure which sets a certain existing and accepted level of progressiveness, and this we must assume to be a proper one. Any change in the method of local taxation, such as the introduction of a local income tax, would call for drastic revision of the national tax structure so as to maintain approximately the same degree of progressiveness.

For present purposes we must take the local government system as we find it, and this involves an acceptance of the rating system. Other forms of local taxation, and, in particular, a local income tax, are rejected, partly because they do not enter into the existing set of circumstances, and partly because there is no certainty that their adoption would be beneficial. Assuming the correct degree/

degree of progressiveness to be introduced through grants, and in particular through general grant, and given a system of equalisation which is efficient, there is no reason why the rating system should not work equally well if not better. From the government's point of view a grant system gives a measure of control which would be absent in a system of local income taxation. It is considered desirable, however, that a detailed review should be instituted so as to determine once and for all whether a local income tax would in the future be a workable proposition. If we now include with education all the other local authority services of a semi-national type, we may conclude that the net cost of these will be met out of rates and grant, part of which will be set aside specifically for resources equalisation.

III

We assume, therefore, a proportion of the national income to be earmarked annually for the payment of these grants, and proceed to distribute it among the local authorities. This may be done in a variety of ways, but generally speaking the sum will be transferred either

- | | |
|-----|--|
| | (a) specifically, for named services, |
| or | (b) in general lump sums, |
| and | (c) to give special aid where the need
is greatest. |

Of these methods, (c) must be constant, but there is a choice in using (a) or (b); this choice must rest with the government, who will exercise it bearing in mind the special characteristics of each type of grant and the circumstances in which the total sum is being distributed.

The main characteristics of the various grants have been noted/

noted - the flexibility of percentage grants and their use in developing services, the stimulus to local interest of general grant, the fact that certain specific grants are directed at non-uniform functions or areas, like the afforestation grants. All grants are primarily percentage grants in the respect that they represent a percentage of total expenditure on services. In the true percentage grant, however, there is no limit attached to this expenditure; such a limit can be fixed either by choosing to use unit grants or general grants of the present type.

Little point is served in putting forward arguments in support of the competing claims of percentage grants and general grants to be considered "best". Both have their purpose to fulfil. We should concentrate rather on asking in respect of each service: is development required, or is this a non-uniform service or one applicable to one particular area? If this is the case, then a percentage grant is called for. If not, the service should be aided through general grant. It is tempting in this connection to think in terms of "development grants" and "maintenance grants"; this is a simplification which does not tell the whole story, but at least it provides a working principle.

As to unit grants, these are unlikely to have great importance in the future. They are neither true "development grants" in that they lack the stimulus of a percentage grant, nor do they have the advantages of general grant. Nevertheless, those that exist at present - for example, the housing subsidies - must continue till they fall out.

We/

We are dealing, then, with a grant system, rather than a series of isolated grants, and the decision to use this or that form of grant at any time must rest with the central government which, as well as having final responsibility for the "common good", is also alone in full knowledge of all the circumstances. Beyond drawing attention to grant characteristics, therefore, no informed comment or criticism can be made here as to the merits of the methods and emphasis from time to time employed.

At the present time adjustments to the grant system are in process of being made, so that the central government's control over total expenditure on the services is now very much strengthened by the creation of a fixed general grant in place of a number of the percentage grants. The only services for which specific grants will continue to be given will be those where the local authorities have little chance to engage in uncontrolled expenditure. These changes represent a normal development of the system which one would expect to see continued; they are not without ample precedent. The control of the grant system, it has been stressed, must remain in the hands of the government, and a general grant is the most effective way of securing this. It must be emphasised, however, that any proper grant system should take continuous account of change, and should be flexible enough as a whole to adjust itself or be adjusted accordingly.

It is noteworthy that in making the recent adjustments to the grant system for the United Kingdom as a whole Scotland has been treated somewhat differently to the rest of the country. This was done firstly because the education service in Scotland is not comparable in its organisation and needs with the service in England and Wales/

Wales so that a separate general grant was regarded as necessary, and secondly because of adjustments which are currently being made to the Scottish rating system and which will not be complete until after 1961-62 when revaluation of properties will have taken place. By then, in theory at least, there should be enough uniformity in rating throughout the United Kingdom for Scotland to be treated for equalisation grant purposes as part of the whole instead of, as at present, a separate unit. This result may or may not be achieved, and it will rest with the Working Party to be set up following revaluation to decide this. From an administrative point of view uniformity for equalisation grant purposes would be desirable, but not if it was artificially based on an administrative uniformity that did not exist. It is right and proper for example, that Scotland with her own special needs should have her own general grant, and it may well be found in 1963 that it is even then impracticable to use the same equalisation grant formula for the United Kingdom as a whole.

In Scotland, then, for the time being, the method of grant distribution must be regarded as transitional, and for the purposes of this thesis it has been thought desirable to:

- (a) describe the existing system.
- and (b) consider how this system might be improved following the forthcoming review.

IV

The/

The first of these two assignments is factual, and the present system in Scotland has already been described in detail in earlier chapters. In summarised form grants are distributed as follows:

Type of Grant	Basis	Weighting factors
Specific - Police Roads Housing Miscellaneous	Percentage Percentage Unit Varied	See Appendix A
General (Scottish)	Population	Children: sparsity.
Transitional	Gains/losses	
Equalisation	Adjusted rate- able value applied to the pool of $\frac{11}{80}$ ths of amount paid as equalisation grant in England and Wales. or the amount calculated under sec. 26 of the Valuation and Rating (Scotland) Act, 1956, which- ever is greater.	children, sparsity rapidly increasing population, corpor- ation housing rents, local expenditure.

Each of the specific grants listed in Appendix A has been examined and it is suggested that unless they can each be justified as promoting development or giving assistance to non-uniform services or areas they should be merged into general grant.

There are, too, certain payments, which are still being made by the Queen's and Lord Treasurer's Remembrancer in Aid of Highland Schools. These are an anachronism and should now either be/

be discontinued or included in general grant.

Three further main observations must be made on the present system; firstly the use of the Goschen formula in equalisation grant, even as a safeguard which is not in immediate use, ought now to be abandoned. Secondly, the rates burden basis of calculating the separate Scottish exchequer grant justifies itself by giving the right results with the minimum disturbance to the administrative systems concerned. It is effective for its purpose which is to see that Scottish authorities are comparably treated to other local authorities elsewhere. But it is a makeshift which was not meant to be permanent and it is difficult to see that its retention in the future could be justified. Thirdly, there should be established a ratio of general grant to total expenditure on services, and it should be made clear that the ratio will be applied and reviewed at short intervals.

In attempting to suggest any reshaping of the foregoing system to take place some years ahead, say in 1964 or 1965, a number of present uncertainties present themselves. These include:

- (a) the position to be revealed by the forthcoming revaluation.
- (b) the possible consequential adjustment of transitional payments.
- (c) the general state of the economy of the United Kingdom.
- (d) the experience gained in both Scotland and England and Wales of general grant in operation.
- (e) the then existing political climate.
- (f) the possible future reorganisation of local government areas in Scotland.

It has been pointed out, for example, that any alterations of areas as in (f) above will have an effect locally on grant and that it will be necessary to have continuous regard to relationships between authorities inter se as well as to the general central/local relationship/

relationship. For this purpose a permanent specialised committee on Scottish local government finance has earlier been proposed, a committee whose duty it would be to watch the development of the uncertainties listed and assess their effects under existing arrangements.

Secondly, in securing the dual equalisation of needs and resources it is considered that we should work towards the position where the rate deficiency grant would be kept as a resources equaliser on a United Kingdom basis, and the needs weightings in the present equalisation grant for children, sparsity and rapidly increasing population should be shifted to the Scottish general grant formula which would, as at present, deal with internal needs. It has been suggested too, that any initial differential in the amount of equalisation grant accruing to Scotland on a United Kingdom basis as compared with the sum allocated on the present system may be adjusted by including it in the total for general grant purposes, so as to avoid loss to the Scottish authorities on the change-over.

The grant system, then, in the form in which it is visualised after, say, 1965 would be as follows:

Type of Grant	Basis	Weighting factors
Specific (development and non-uniformity) Roads Housing Miscellaneous	Percentage Unit Varied <u>Needs Equalisation</u>	
General" (on Scottish Basis)	Population	<u>Internal needs</u> - children, sparsity rapidly increasing population. <u>External needs</u> - taken into account at grant period reviews
	Resources Equalisation/	

Type of Grant	Basis	Weighting factors
	<u>Resources Equalisation</u>	
Rate deficiency (on U.K. basis)	Rateable value per head of population	Provision for expenditure limits

" Inclusive of any remaining specific grants of a non-development nature, with a ratio provided for "maintenance" changes in cost, "development" cost change being provided for by central decision.

The real problem of Scotland in relation to the grant system remains unsolved. There is in fact no satisfactory solution. The position to-day is little different in this respect to what it was over fifty years ago when Turner wrote, "...of course it is impossible for Scotland to subscribe to national funds to be given in relief of English rate-payers without obtaining an equivalent for itself."

Scotland now has its own general grant and it might even be possible to obtain a separate equalisation scheme similar to the scheme used in the London area. But there would always be the thought that somehow Scotland was getting the worst of the bargain.

This idea of an "equivalent" has dogged us since 1707 and it is likely to continue doing so for just as long as we continue to cherish/

cherish Scottish independence in these matters. Individuality must be bought and compromise is the price we pay for it.

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APPENDIX AThe Main Scottish Specific Grants.

The following specific grants are available to the Scottish local authorities at the present time; they do not include those grants which have been abolished or generalised by the Local Government and Miscellaneous Financial Provisions (Scotland) Act 1958. The list of grants has been adapted from a publication of the Institute of Municipal Treasurers and Accountants Students' Society, and the following abbreviations have been used in the text:

Originating Departments:

- | | |
|--|--|
| 1. Scottish Home Department | 7. Queen's and Lord Treasurer's Rembrancer |
| 2. Ministry of Transport | 8. Ministry of Works |
| 3. Department of Health | 9. Forestry Commission |
| 4. Department of Agriculture | 10. Board of Trade |
| 5. Scottish Education Department | |
| 6. Ministry of Labour and National Service | |

Destination of Grants:

- (a) Counties
 - (b) Counties and Counties of Cities
 - (c) Counties and large burghs
 - (d) Counties and small burghs
 - (e) Counties and burghs
 - (f) Counties and Burghs in Development Areas
 - (g) Counties, burghs and districts.
 - (h) Maritime counties and large burghs
 - (j) Small burghs
 - (k) Highland Counties listed in Schedule 2 of the Education (Scotland) Act 1946.
-

II

Grant	Basis	Authorising Statute	Origin and destination
Police Grant	<u>Police Grants</u> 50% of net approved expenditure	Police (Scot) Act 1946	1 (c)
Classification grants	<u>Roads Grants</u> Class I 75% approved Expend. <u>II</u> 60% do. <u>III</u> 50% do. (maintenance and minor improvements of roads and bridges in landward area and small burghs, and street cleansing in the landward area.)	Development and Road Improvement Funds Act, 1909	1 (a)
Street Cleansing	50% of 1st £150 per mile of cost <u>plus</u> 40% of next £100 <u>plus</u> 30% of the balance <u>plus</u> 30% of the balance	do.	1 (j)
Improvement schemes	Rate according to classification of road	do.	1 (c)
Construction of new roads	do.	do.	do.
Major Road Improvement	do.	do.	do.
Traffic Control by light signals	do.	Road Traffic Act 1930	do.
Speed limit signs	do.	Road Traffic Act 1934	do.
Pedestrian crossing places	do.	do.	do.
Guard Rails	do.	do.	do.
Road Signs	do.	Road Traffic Act 1930	1 (d)

Grant	Basis	Authorising Statute	Origin and Destination
Snow Ploughs	Cost of maintenance plus 50% of initial cost, allocated in counties to different classes of roads on a mileage basis; ranks for classification grant rates	Development and Road improvement Funds Act, 1909.	1 (c)
Traffic census	50% approved expenditure	Ministry of Transport Act 1919	1 (c)
Trunk roads maintenance	reimbursement of approved maintenance expenditure, plus administration expenses at 70%	Trunk Roads acts 1936-1946	1 (c)
Capital	Reimbursement of approved capital expenditure and administration expenses at 4%	do.	1 (c)
Surveys	Reimbursement	Restriction of Ribbon Development Act, 1935	1 (c)
Cattle grids	rates according to class of roads	Highways Act 1950	1 (c)
Road Improvement	Percentage fixed by Secretary of State for improvements approved within 7 years	Agriculture (Improvement of Roads) Act 1955	1 (a)
<u>Housing Grants</u> <u>Local Authority Schemes</u>			
Subsidy	Estimated loss under deduction of 4/5ths penny rate <hr/> £6 per house per annum for 20 years/	Housing (Scotland) Act 1919	3 (e)

Grant	Basis	Authorising Statute	Origin and Destination
Subsidy	<p>years for houses completed by 30.9.29 and £4 for those completed between 30.9.29 and 1.7.34</p>	Housing Act 1923	3 (e)
	<p>50% estimated loss on slum clearance</p>	do.	
	<p>Rural Areas £12:10/- non-rural £9 - per house per annum for 40 years for houses completed before 30.6.34 £3 for those completed between 30.6.34 and 1.4.35</p>	Housing (Financial Provisions) Act 1924	
	<p>50% of loan charges for 20 years</p>	Housing (Rural Workers) Acts 1926/38	
	<p>Rural areas £2:15/- Non-rural £2:10/- per units displaced per annum for 40 years.</p>	Housing (Scotland) Act 1930	
	<p>£6:15/- per house per annum for 40 years for houses completed between 1.2.35 and 31.12.38</p>	Housing (Scotland) Act 1935	
	<p>For houses completed between 1.1.39 and 7.3.44 £10:10/- per 3 apt. house £11:15/- per 4 apt. house £13: per 5 apt. house £5:10/- for each part of a hostel designed for separate occupation for 40 yrs.</p>	Housing (Financial Provisions) (Scotland) Act 1938	

Grant	Basis	Authorising Statute	Origin and Destination
Subsidy	<p>£10:10/- £15: per house per annum for 40 years for houses completed between 3.11.37 and 7.3.44</p>	<p>Housing (Agricultural Population) (Scotland) Act 1938</p>	3 (e)
	<p>£21:10/- £35: per house per annum for 60 years for houses completed after 8.3.44 for accommodation of agricultural population</p>	<p>Housing (Financial Provisions) Act 1946 and Housing (Scotland) Act 1950</p>	
	<p>Houses completed after 28.2.52 for agricultural population. £51:15/- per 3 Apt. house £54:5/- per 4 Apt. house £58:15/- per 5 Apt. house per annum for 60 years</p>	<p>Housing (Scotland) Act. 1952.</p>	
	<p>(a) Houses completed after 8.3.44 £21: 10/- per 3 Apt. house £23: per 4 Apt. house £25:10/- per 5 Apt. house £11 for each part of a hostel designed for separate occupation - all per annum for 60 years</p> <p>(b) Also for the conversion of Government/</p>	<p>Housing (Financial Provisions) Act 1946 and Housing (Scotland) Act 1950</p>	

Grant	Basis	Authorising Statute	Origin and Destination
Subsidy	<p>Government war buildings into temporary houses - re-imbursment of estimated loss, less, authority's contribution of £6 per house where population of county is under 100 per square mile or population of burgh does not exceed 2,000 and of £8 in other cases.</p> <hr/> <p>(a) 75% of the annual loss in (1) providing dwellings by conversion (11) improvement of building - for 20 year period</p> <p>(b) Increased cost of providing new houses due to use of stone, etc. so as to preserve the character of surroundings - contribution up to £5 per house for 60 years</p> <p>(c) For each bedroom in hostels provided by erection of new buildings - up to £7 for 60 years</p> <hr/> <p>For houses completed after 28.2.52 £39:15/- per 3 apt. house/</p>	<p>Housing (Financial Provisions) Act 1946 and Housing (Scotland) Act 1950</p> <p>Housing (Scotland) Act 1949 and Housing (Scotland) Act 1950</p>	3(e)

Grant	Basis	Authorising Statute	Origin and Destination
Subsidy	<p>house. £42:5/- per 4 Apt. house. £46:15/- per 5 Apt. house. £20 per annum - all for 60 years</p>	Housing (Scotland) Act 1952	3 (e)
	<p>Basic £24 per house for 60 years Overspill houses £42 for 60 years</p>	Housing and Town Development (Scotland) Act 1957	
	<p>75% of loans charges in making standard grants up to £155 each.</p>	Housing and House Purchase Act 1959.	
	<p><u>Private Enterprise Schemes</u></p>		
	<p>£6 per house per annum for 20 years for houses com- pleted by 30.9.29 and £4 for those completed after 30.9.29 and before 1.7.34 and toward the construction of which lump sum grants have been made by the local authority.</p>	Housing etc. Act 1923	
	<p>Rural areas - £12:10/- Non-rural £9 per house per annum for 40 years for houses completed before 30.6.34 towards which lump sum grants have been made by the authority</p>	Housing (Financial Provisions) Act 1924	
	<p>50%/</p>		

VIII

Grant	Basis	Authorising Statute	Origin and Destination
Subsidy	50% Estimated loan charges for 20 years	Housing (Rural Workers) Acts 1926/38	3 (e)
	75% Estimated loan charges for 40 years on lump sum grants made by the local authority for the construction or adaptation of houses.	Housing (Agricultural Population) (Scotland) Act 1938	
	75% Estimated loan charges for 20 years in respect of "improvement grants" for:- (a) Provision of dwellings by conversion. (b) Improvement of dwellings.	Housing (Scotland) Acts 1949 and 1950	
	75% Estimated loan charges for 40 years on lump sum grants made by the local authority for construction of houses.	Housing (Scotland) Act 1952	
<p><u>Note:</u> Further grants are available in respect of houses erected in remote areas, re-development areas, in tenements on central sites, in tenements at least 4 storeys high where lifts are installed, for houses whose cost has been substantially increased by reason of expenditure on rights of support, for building experiments, for the preservation of the character of surroundings.</p>			
<p><u>Miscellaneous Grants</u></p>			
Public Health - Port Sanitary Administration	50% approved expenditure and whole cost of/	Public Health (Scotland) Act 1897	3 (c)

Grant	Basis	Authorising Statute	Origin and Destination
<u>Miscellaneous Grants</u>			
<u>Public Health - Port Sanitary Administration</u>	50% approved expenditure and whole cost of medical inspection of aliens at certain ports.	Public Health (Scotland) Act 1897	3 (c)
Milk testing	37½% approved expenditure on salaries, etc. of Milk Officers, and 75% approved expenditure on equipment	Milk and Dairies Act 1919/1929	3 (c)
Smoke Control	4/7th of the local authority's contribution to owners' and occupiers' expenditure	Clean Air Act 1956	3 (e)
Meat Inspection	50% attributable expenditure	legislation pending	3 (e)
Compensation for closure of private slaughter houses	up to 50% of compensation paid	Slaughter houses act 1954	3 (e)
<u>Education</u> Milk	100% of net recognisable expenditure	Education (Scotland) Act 1946	5 (b)
Meals	do.	do.	5 (b)
Highland schools	fixed amounts	do.	7 (k)
<u>Welfare</u> Employment of Blind Persons in Workshops	75% of actual expenditure with a maximum of £100 per head	Disabled Persons (Employment) Act 1944	6 (c)
Employment/			

Grant	Basis	Authorising Statute	Origin and Destination
<p><u>Welfare</u> Employment of approved Blind Home workers</p> <p>Provision of workshops for the blind</p>	<p>75% of administration expenditure with a maximum annual grant of £20 per head. Up to 75% of expenditure on-</p> <p>(a) provision and maintenance of tools and equipment</p> <p>(b) provision of working accommodation for blind workers (not in excess of £25 under either head)</p> <p>Up to 75% approved capital expenditure</p>	<p>Disabled Persons (Employment) Act 1944</p> <p>do.</p>	<p>6 (c)</p> <p>do.</p>
Probation	50% approved expenditure	Criminal Justice (Scotland) Act 1949	1 (c)
Remand Homes	50% approved expenditure on upkeep	Children and Young Persons (Scotland) Act 1937	1 (c)
Sheriff Court Houses	<p>Cost of erection - 50% of approved expenditure</p> <p>Maintenance - 50% of approved expenditure</p>	Sheriff Court Houses Acts 1860 and 1884	<p>8 (a) and</p> <p>1 (a)</p>
Planning	Major re-development - 50% of notional loans charges on expenditure incurred on schemes	Town and Country Planning (Scotland) Acts 1947 and 1954	3 (c)
Acquisition/			

Grant	Basis	Authorising Statute	Origin and Destination
Acquisition of Historic Buildings or Monuments	Cost or proportion of cost of purchase	Historic Buildings and Ancient Monuments Act 1953	3 (c)
<u>Water</u> - Provision of supply to Rural Areas	Percentage contribution determined by the Secretary of State	Rural Water Supplies and Sewerage Act 1944, and Water (Scotland) Act 1949	3 (e)
<u>Drainage</u> - Provision of Sewerage Systems in Rural Areas	Percentage contribution determined by the Secretary of State	Rural Water Supplies and Sewerage Act, 1944.	3 (e)
Provision of Sewers and Sewerage Purification Works	do.	Distribution of Industry Act 1945.	3 (f)
<u>Civil Defence</u>	Re-imbursement of approved expenditure covered by grant regulations, 1953. 75% of other expenditure	Civil Defence Act 1948	1 (e)
<u>Coast Protection</u>	Contributions at discretion of Secretary of State towards the erection of coast protection works	Coast Protection Act, 1949.	1 (h)
<u>Collection of Motor Licence Duties</u>	Re-imbursement of approved expenditure	Roads Act 1920	2 (c)
<u>Afforestation</u>	Planting grants - £17 per acre.	Forestry Act 1919	9 (e)
Improving/			

XII

Grant	Basis	Authorising Statute	Origin and Destination
Improving Basic Services of Roads, Housing and Health.	up to 100% of approved expenditure	Distribution of Industry Act, 1945.	10 (f)
Schemes for using derelict land.	up to 100% of approved expenditure	Distribution of Industry Act, 1945.	10 (f)

APPENDIX BSpecific Grants forming General Grant from 16th May 1959.

1. Education. (but not school milk and meals, or the removal of defence works.)
 2. Health services under the National Health Services (Scotland) Act, 1947.
 3. Fire.
 4. Child Care.
 5. Town Planning. (but not major re-development which is non-uniform in its application mainly to Glasgow.)
 6. Road Safety.
 7. Traffic patrols.
 8. Registration of electors.
 9. Physical training and recreation. (so far as payable to local authorities.)
 10. Residential and temporary accomodation under the National Assistance Act, 1948.
 11. School crossing patrols.
-

APPENDIX C

Specific Grants abolished from 16th May 1959.

1. Compensation for loss of fees from the licensing of hackney carriages, trolley vehicles, etc.
 2. Portable wheel weighers.
 3. Rodent control.
 4. Salaries and establishment charges of highway engineers and surveyors.
-

APPENDIX DDistribution of General Grant in England and Wales (1)The Formula(1) Basic Share:

£5.75 per head of population;
Plus £0.52 for each child under
15 in this population

Plus(2) Supplementary Shares:

- (a) School children: £0.058 per head of population multiplied by the excess (to the nearest whole number) over 110 of the number of children on the registers of maintained and assisted schools per 1,000 population.
- (b) Young Children and old people: £0.42 for each child under 5, and for each person over 65.
- (c) High density: a percentage of the basic share equal to one half of the density in excess of 18 persons per acre.
- (d) Low density: a percentage of the basic share equal to $2\frac{1}{4}$ times the number of miles per 1,000 population in excess of 2 (maximum 70%).
- (e) Declining Population: A percentage of the basic share equal to half the percentage decline in population in the past 21 years in excess of 5%.
- (f) High Costs in Greater London: 5% of the basic shares payable to all areas wholly or partly within the Metropolitan Police Area.

TOTAL GRANT before deduction of 9d. rate

LESS

(3) A rate product deduction of 9d.

Note: In fixing the numerical factors used in the above formula a total of general grant of £392,915,500 has been assumed.

APPENDIX E

Statements showing, for the year 1959-60, the general grant payable to a Council, after reduction in accordance with Part I and adjustments in accordance with Part II of the Third Schedule to the Local Government and Miscellaneous Financial Provisions (Scotland) Act, 1958.

APPENDIX I

Aggregate of General Grants for Scotland		£50,125,000
Reductions in accordance with Part I, Third Schedule:-		
Payments to Universities,	£115,000	
One-half of estimated expenditure on central fire training institution,	3,500	
Three-quarters of estimated expenditure on local fire training centres,	24,248	
Three-quarters of estimated expenditure on central fire examination board,	263	
One-half of estimated expenditure on training in child care,	5,900	
One-half of estimated expenditure on grants to voluntary organisations,	<u>1,850</u>	<u>150,761</u>
1. Aggregate of general grants as reduced		<u>£49,974,239</u>
Adjustments in accordance with Part II, Third Schedule:-		
Estimated amount of reckonable expenditure to be incurred during 1959-60 by various authorities in Scotland on		
Further education		£ 1,999,033
Education in hospitals,		90,464
Education of certain pupils residing in voluntary homes		80,350
Training of health visitors and midwives		6,688
Children not ordinarily resident in the area		<u>-</u>
2. Aggregate estimated reckonable expenditure to be apportioned		<u>£ 2,176,535</u>
3. Total of weighted populations (Second Schedule)		6,764,944
4. Factor for apportionment of aggregate general grants as reduced ($1 \div 3$)		£7.38723617
5. Factor for apportionment of aggregate estimated reckonable expenditure ($2 \div 3$)		£0.32173733

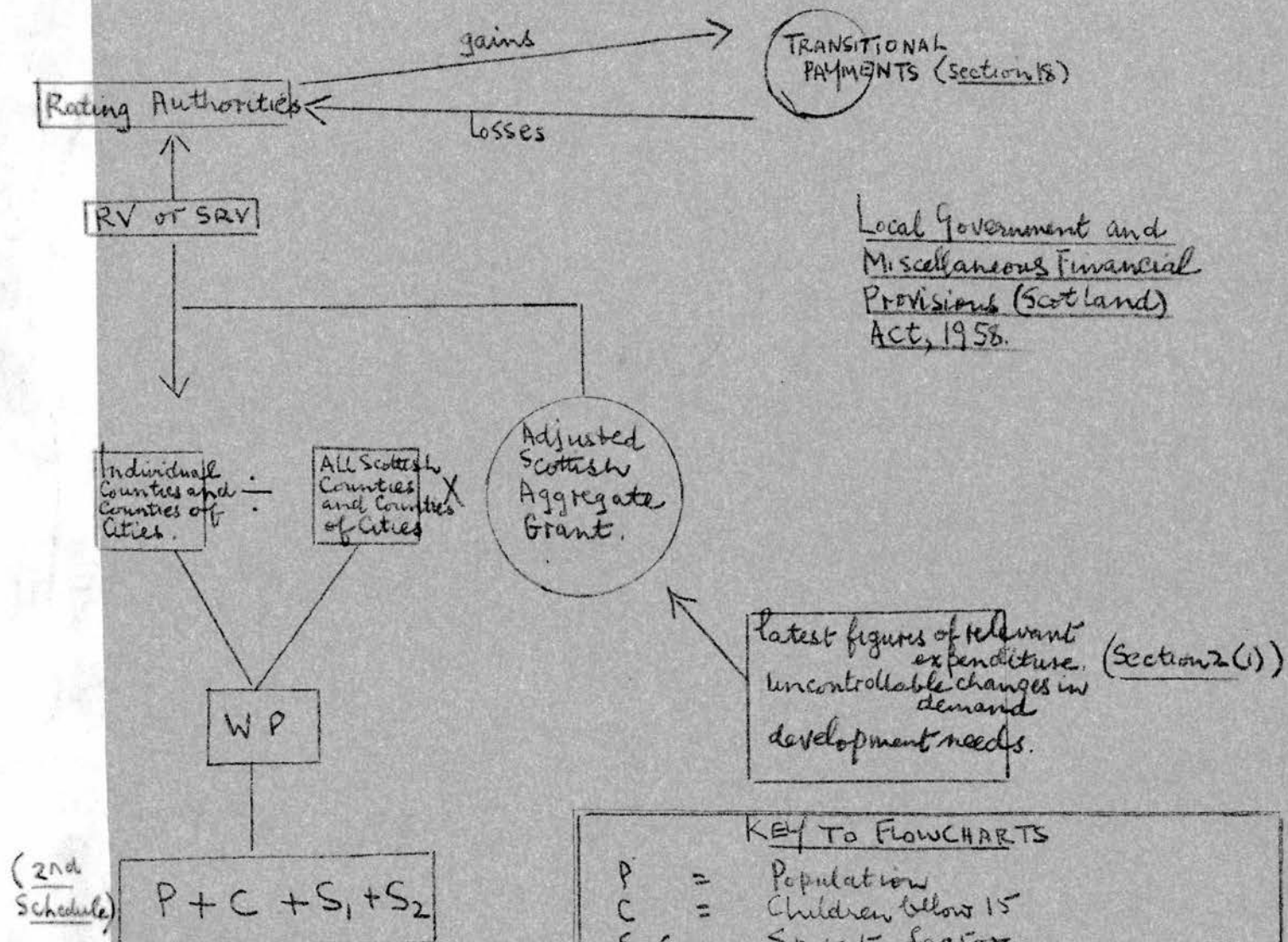
County of Midlothian1959-60APPENDIX II

1.	(a) Estimated population of County, including all burghs, at 30th June, 1958.	107,732
	(b) Estimated number of children under 15 years of age at 30th June, 1958.	29,284
	(c) Additional weighting (1(a) x 4)	5,387
	(d) Weighted population ((a) ÷ (b) + (c))	<u>142,403</u>
2.	(a) Number of pupils, 31st July, 1958	18,850
	(b) Miles of road (and sea route)	542.10
	(c) Pupils per mile (a(a) ÷ (2(b)))	34.8
	(d) Percentage of population to be added	-%
3.	(a) Estimated population of the landward area at 30th June, 1958	63,397
	(b) Proportion of landward area to total population (3(a) ÷ 1(a))	59%
	(c) Percentage of population to be added	5%
4.	Total, percentage of population to be added	<u>5%</u>
5.	General grant, as reduced in accordance with Part I of Third Schedule to the Act (1(d) above x £7.38723617)	£1,051,965
6.	Amount of estimated reckonable expenditure apportioned to the County (1(d) above x £0.32173733)	45,816
7.	Amount of estimated reckonable expenditure to be incurred directly by the County during 1959-60	37,756
8.	Sum of the greater, in each case, of the rateable value or standard rateable value for 1958-59, estimated in accordance with section 7 of the Act, of all rating authorities within the County.	£1,567,276

County Council of Midlothian. (landward)1959-60APPENDIX III

- | | |
|--|------------------|
| 1. Rateable value of the Council's area in 1958-59 estimated in accordance with section 7(7)(a) of the Act | £ 681,478 |
| 2. Standard rateable value of the Council's area in 1958-59 estimated in accordance with section 7(7)(b) of the Act | £ 925,738 |
| 3. General grant, as reduced, for 1959-60 (App.II,5 multiplied by the greater of 1 or 2 above, divided by App.II,8) | <u>£ 621,374</u> |
| 4. Amount of general grant, as reduced, to be advanced during 1959-60 (94% of 3 above) | £ 584,091 |
| 5. Amount of estimated reckonable expenditure, which the Council is required to meet (App.II,6 multiplied by the greater of 1 or 2 above, divided by App.II,8) | 27,063 |
| 6. Amount of estimated reckonable expenditure to be reimbursed to the Council (App.II,7 multiplied by the greater of 1 or 2 above, divided by App.II,8) | <u>22,301</u> |
| 7. Net amount to be paid to the Council during 1959-60 (subject to adjustment under section 18) in twelve approximately equal instalments (items 4 - 5 + 6) | <u>£ 579,329</u> |

PRESENT SYSTEM —



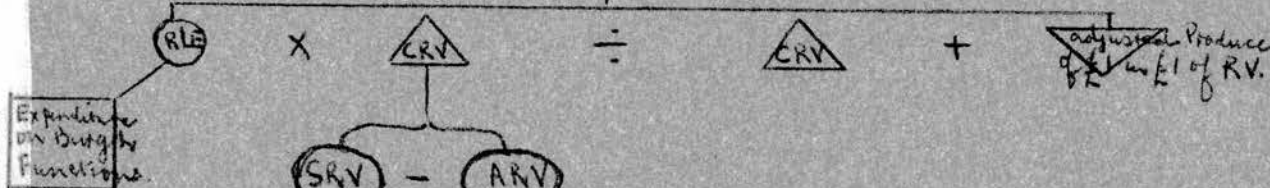
KEY TO FLOWCHARTS

P	=	Population
C	=	Children below 15
S ₁ , S ₂	=	Sparsity factors
WP	=	Weighted Population
RV	=	Rateable Value
SRV	=	Standard Rateable Value
RLE	=	Relevant Local Expenditure
CRV	=	Credited Rateable Value
ARV	=	Adjusted Rateable Value
GF	=	Governing Factor
RIP	=	Rapidly Increasing Population
PRP	=	Penny Rate Product
SPRP	=	Standard Penny Rate Product
M	=	Mileage
NRB	=	Notional Rate Burden
NRLE (S)	=	Notional Relevant Local Expenditure (Scotland)

PRESENT BASIS -

$$EEG(S) = \frac{RLE \times CRV}{CRV + Adj. Prod.}$$

Counties
Counties of Cities
Boroughs
Districts on Expenditure Basis.



$$P + C + S + RIP$$

SCOTTISH EXCHEQUER GRANT

Local Government (Fin. Prov) (Scot)
Act, 1954, and
Valuation and Rating (Scot)
Act, 1956.

11/80 of Rate deficiency
grant less transitional
grants

$$\frac{NRLE(S) - NRB}{NRLE(S)} \times RLE(S)$$

Local Government
Act 1958.

$$\frac{\text{Total RDG in England and Wales} - \text{SPRP} - \text{PRP}}{\text{SPRP}} \times RLE$$

Counties
County Boroughs
District Councils and
Capitation Payments

$$SPRP - PRP \div SPRP \times RLE$$

$$WP \times \frac{PRP(E+W)}{P(E+W)}$$

COUNTIES
COUNTY BOROUGH
MET. BOROUGH
BOROUGH
U.D.C.
R.D.C.

$$P + \frac{2}{5} \left(70 - \frac{P}{M} \right)$$

(a)
If Group TA
> Local TA:
Expend = $WP \times$
Group Expend
per head of Pop.

(b)
If Local TA
> Group TA:
Expend = $WP \times$
G. Exp. per head
GTA Expend.